

# **ASSESSMENT REPORT OF THE DEMAND FOR MICROENTERPRISE FINANCE AND DEMAND ELASTICITY FACTORS IN THE WEST BANK AND GAZA**

Submitted to:  
**USAID/West Bank and Gaza**  
on

November 30, 1999

by

Dr. Lucy Creevey, Weidemann Associates, Inc.

Mr. James Hairston, ATMA International, Inc.

And

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Under the Weidemann MicroServe IQC  
Mr. James Dempsey, COTR, USAID/G/EG/MD  
Contract # PCE-0406-I-00-6012-00  
Delivery Order No. 811

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**Assessment Report of the Demand for Microenterprise Finance and Demand**  
**Elasticity Factors in the West Bank and Gaza**

**Table of Contents**

<b>Acknowledgements.....</b>	<b>v</b>
<b>Executive Summary.....</b>	<b>1</b>
<b>I. Introduction.....</b>	<b>5</b>
<b>II. The Microenterprise Sector and Credit in the West Bank and Gaza.....</b>	<b>10</b>
<b>III. Survey Results on the Demand for Credit.....</b>	<b>17</b>
<b>IV. Supply Side Analysis of Microenterprise Credit.....</b>	<b>38</b>
<b>V. Conclusions and Recommendations.....</b>	<b>57</b>

**Annexes**

I	Scope of Work for the Assessment Report (N/A)
II	Biographical Information on Team Members (N/A)
III	Commercial Banks and Number of Branches; Organizations Visited; People Interviewed By Institution; Supply Side Assessment Survey of Microenterprise Credit
IV	Sample Distribution
V	Microenterprise Sector – Demand for Financial Services Survey Form
VI	Comments and Field Notes: Microcredit Field Survey



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## **Executive Summary**

A research team led by Dr. Lucy Creevey, Professor, University of Connecticut and consultant to Weidemann Associates of Arlington, Virginia, conducted the assessment of demand for credit and demand elasticity factors in the microenterprise sector of the West Bank and Gaza under the USAID-funded MicroServe Indefinite Quantity Contract between July and October 1999. James Hairston, of ATMA International, Inc., Baltimore, Maryland, conducted the assessment of demand for credit and demand elasticity factors in the microenterprise sector of the West Bank and Gaza. The other key researcher on the team was Mazen As'ad from Massar Associates, a West Bank-based research firm. Massar Associates staff also assisted the team and conducted the field survey of microenterprises. There were 673 respondents to the field survey. Interviews were conducted with seven commercial banks, nine non-governmental organizations (NGOs) and the United Nations Relief and Works Agency (UNRWA).

The assessment goal was twofold:

1. To determine in a systematic fashion the demand for credit by microentrepreneurs (employing 10 or less people) in the West Bank and Gaza. All major economic sectors of activity were surveyed and subdivided to capture differences by gender, geographical distribution, number of employees, and linkage to a variety of factors.<sup>1</sup>
2. Profile the credit sources for the microenterprise sector to determine the major characteristics of their operation.

The results of the two lines of research were used to answer a range of questions on the microfinance market and potential clients, market gaps, under-served groups, borrower profiles, and financial services. In line with the assessment goal, the team has provided USAID with a summary of demand for micro credit and assessment of the existing (and potential) supply in the West Bank and Gaza with specific recommendations and conclusions about the implications and opportunities for USAID in an expanded lending program.

### **I. Findings**

- i. The team found that there is a relatively large amount of funds potentially available to the microenterprise sector—estimated here to be at least \$78 million from the seven commercial banks, nine NGOs and UNRWA that provided data on their involvement in the microenterprise sector. However, this amount could more likely be about \$85 million when other banks and NGOs, raw materials suppliers, and moneychangers are factored in. This money is available for small to large loans, with and without collateral required. Loan funds are fungible. The areas that present acceptable loan applications are the ones that receive the resources. Of course, not all microentrepreneurs would qualify for the loans according to the different regulations and requirements of individual loan programs, but this figure does indicate that a substantial amount of funds are accessible.

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<sup>1</sup> USAID, Scope of Work for Contract PCE-0406-1-00-6012-00, May 1999, see Annex I.

- ii. Banks do not ordinarily make microenterprise loans of less than \$500, (the range is from \$500 to \$50,000), while NGOs do in certain programs, especially those targeting women and women organized in solidarity groups. The average loan size is about \$8,872 from commercial banks and \$7,840 from the NGOs and UNRWA.
- iii. Many previous studies have reported that few business owners in the microenterprise sector have had loans from formal institutions. The team's data supports this conclusion. To date, credit has not played an important role in the growth and development of the microenterprise sector in the West Bank and Gaza Strip (WBGs).
- iv. Only 21 percent of the microentrepreneurs in the sample felt that lack of access to credit (or conditions for credit) was a serious problem for the growth and development of their businesses. Instead, people were most concerned about political factors such as Israeli border closures and the resultant market fluctuations. In addition, 60 percent said they did not want a loan.
- v. USAID has identified the \$500 to \$10,000 range as being potentially under-served in the WBGs area. Looking at the 40 percent who wanted loans, respondents asked for a low of \$200 to a high of \$70,000, but 72 percent were in the range of \$500 to \$10,000. The mean in the latter group was for a loan of \$5,202 but the mode, the most frequently cited amount, was at the high end, for \$10,000, while the second largest group asked for \$5,000. Thus there is evidence that, among those who want loans, the identified range is the one most sought after—particularly the middle to high end of this range.
- vi. Thus, there appears to be a small CURRENT market for additional credit in the WBGs microenterprise sector, however, there could be a larger POTENTIAL market for microenterprise credit, particularly as (and if) the political situation stabilizes.
- vii. However, survey data show the upper, more successful group of entrepreneurs, (less at the margin within the microenterprise sector), is interested in and concerned about getting access to credit, although few of them have done so to date.
- viii. Further, adopting a proactive strategy with an emphasis on marketing and direct selling of loans may increase loan demand among microentrepreneurs. More open and aggressive marketing of the existence of credit for micro businesses and increasing the number of credit outlets in areas where bank branches and NGOs do not currently operate, while taking into consideration the costs involved, may change prevailing attitudes and increase understanding in the sector.
- ix. The microfinance sector can indeed be segmented to reflect differences among microentrepreneurs. Loans have to be tailored to each kind of business, so the sector distinction remains important. Location is an obvious subdivision as well; banks do not have branches in all areas. Gender is still a major factor. Women, who are less likely to have had a loan, are more likely than men, on average, to express a desire for

credit. A review is needed of credit conditions and women's business resources/ability to access formal credit. The formal/informal distinction is also important; those businesses that were registered/paid taxes were more interested in credit and worried about credit conditions than others.

- x. Major constraints to the expansion of commercial bank credit to microenterprises include: the shortage of trained loan officers, uneven distribution of branches which offer microenterprise credit, and ignorance of credit availability. Loan conditions also act as a constraint on certain entrepreneurs' capacity to borrow from a commercial bank.

## II. Recommendations

Attention should be given to promoting existing bank and microfinance programs, (which offer loans in the range most desired—between \$5,000 and \$10,000), and encouraging their adoption of proactive strategies with appropriate loan packaging and marketing to the microenterprise sector rather than increasing the loan fund supply at present. When the demand begins to exceed available funds, further monies could then be made available for programs that target women and underserved areas (since some areas of WBGS have an oversupply and others no access).

USAID should:

1. Sponsor (or fund) a more comprehensive study of the existing commercial banks and NGOs / UNRWA microenterprise credit programs for the purpose of publishing a booklet containing information on all of these programs. Distribute the booklet document to all key areas of WBGS in the local language and include information on the program's location, credit available, and other loan application factors. Use the booklet as to both a marketing and promotional tool to be used to inform microentrepreneurs about the credit that is available to them and the general loan terms and conditions.
2. Fund or provide training courses or workshops for microenterprise loan officers at banks and NGOs with existing microenterprise lending programs and for commercial banks that do not yet have this type of program, but want to establish one.
3. Support existing banks and NGOs to expand their involvement into new areas or support new groups (such as women) not currently being served or underserved.
4. Provide funding for a study of the WB and GS cities and towns, where no credit programs currently exist, to identify the potential demand for microenterprise credit by economic sector.
5. Build and encourage linkages within the micro credit sector. Encourage partnering between commercial banks and NGOs, wherein the NGOs refer microentrepreneurs to the bank for financing, while the NGOs continue to provide technical assistance or training to microentrepreneurs to assist them to develop and grow their businesses.



6. Continue to periodically monitor the quarterly reports presented by existing USAID-funded microenterprise loan fund contractors, looking in particular at information on loan applications rejected to see if a pattern emerges where additional training and technical assistance could help.
7. Conduct a study to analyze the more frequently-occurring reasons for loan rejections and see if any technical assistance or training could be provided to the microentrepreneurs to correct any minor deficiencies in an otherwise viable project or business that would make the applicant creditworthy. This recommendation only applies if there are large numbers of microentrepreneurs whose businesses/projects have a common deficiency that, if corrected, would be approved for loans by banks or NGOs. If this is the case, USAID funding could be made available to develop and implement a project or grant for that purpose. An option would be to channel the resources to existing NGOs that have the capability to implement such a program.

# **Assessment of Demand for Credit and Demand Elasticity Factors in the Microenterprise Sector of the West Bank and Gaza**

## **Chapter I**

### **Introduction**

#### **I. Objectives**

The two principal objectives of this research are to:

1. Determine in a systematic fashion the demand for credit by microentrepreneurs (employing 10 or less people) in the West Bank and Gaza. The enterprises surveyed will include all major sectors of activity including agriculture, manufacturing, trade and services. These sectors will be further subdivided to capture differences by gender, geographical distribution, number of employees, and linkage to the modern sector, sales and/or profits, degree of permanency of business and its importance to the overall income of the owner, credit history, sensitivity to interest rates, ability to provide collateral, and overall expressed demand for credit and purpose for loans demanded.<sup>2</sup>
2. Profile the credit sources for the microenterprise sector to determine the major characteristics of their operation including: a) target market and location; b) number of borrowers, loans outstanding, average loan size, range of interest rates, commissions and fees; c) sources of funds for programs; d) characteristics of loan product, minimum and maximum terms; e) future lending plans; and f) constraints on portfolio expansion among others. Sources reviewed include commercial banks, non-governmental organizations (NGOs), United Nations (UN) agencies and other sources of microfinance such as those offering supplier credit. Specific programs to be included (among others more randomly chosen) are the United States Agency for International Development (USAID) program with the Arab Bank and Bank of Jordan, the International Finance Corporation (IFC) program with Arab Bank, Jordan National Bank and the Commercial Bank of Palestine, and the microfinance programs of Save the Children, the Young Men's Christian Association (YMCA), CARE International, American Near-East Refugee Aid (ANERA), the Palestine Agricultural Relief Committees (PARC), and the United Nations Relief and Work Agency (UNRWA).

The results of the two lines of research will be used to answer the following questions:

1. What is the actual and projected market size for microfinance?
2. How can the potential microfinance sector be segmented to reflect the economic and social differences among microentrepreneurs?
3. Are there any market gaps that can be identified in the microfinance industry? What is the justification to extend further USAID assistance to this segment?
4. Should USAID specifically target certain segments that are not currently being served, or are underserved, and why?

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<sup>2</sup> USAID, Scope of Work for Contract (SOW) PCE-0406-1-00-6012-00, May 1999, see Annex I.

5. Are there economic segments that require extra caution when considered for microcredit services? What critical factors should be considered?
6. What is the economic and social profile of current borrowers in the ongoing USAID commercial banking activity?
7. What are the differences in the financial services needed among different M/E sector businesses?

The final goal of the research is to provide USAID with a summary of demand for microcredit and assessment of the existing (and potential) supply in the West Bank and Gaza with specific recommendations and conclusions about the implications and opportunities for USAID in an expanded lending program.

## **II. Project Rationale**

One of USAID's strategic objectives is to "Support Expanded Private Sector Economic Opportunities for Palestinian entrepreneurs" as part of a program intended to "stimulate significant economic activity, alleviate poverty and generate income."<sup>3</sup> A February 1996 USAID-funded microfinance sector assessment concluded that there was evidence that "the supply of microenterprise credit is far below the latent demand."<sup>4</sup> This conclusion was shared by other researchers in Palestine. Thus a 1998 report states that "a major constraint to this sector is the lack of access to credit..."<sup>5</sup> The need for credit in the microenterprise sector is consistent with what has been observed in other countries where the economy is developing and average per capita income is low.<sup>6</sup> In sharp contrast, however, some managers of projects in the microfinance sector in the West Bank and Gaza have observed a low rate of demand for credit.<sup>7</sup> Moreover, in a broader study exploring all private enterprises, the United Nations study of the Private Economy noted that clients of NGOs surveyed did NOT place lack of credit very high on its list of problems. In fact, only one client placed it on the list of constraints at all and he did not see it as a major problem. These clients included microentrepreneurs in all fields of activity including agriculture.<sup>8</sup>

This contradictory perspective on credit demand raises significant questions and underlines the importance of this research. It is not a given that 'everyone needs a loan,' instead it is a question. This study will explore the various dimensions to the issue. Is the lack of demand observed above a general phenomenon or specific to only a few agencies or types of agencies? Are there perhaps gaps in the credit market either in terms of different size loans available, in terms of what the criteria are for loan eligibility, or in the terms of the loan itself? Is absence of demand a result of lack of information among microentrepreneurs about credit availability and/or their distrust of institutions which offer credit or the terms upon which credit is offered? Are there

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<sup>3</sup> Ibid, p. 1.

<sup>4</sup> Stephen C. Silcox, Karl F. Jensen, Olaf E. Kula, Microenterprise Finance Sector Assessment of the West Bank and Gaza: Final Report, (February 1996, p.1).

<sup>5</sup> Massar Associates, Microfinance Base-Line Survey (May 1998), p.8.

<sup>6</sup> Hulme and Moseley, Financing Poverty (and others; Lucy Creevey, India art) TO COMPLETE

<sup>7</sup> Interviews : Jim Hairston, July 11-22, 1999.

<sup>8</sup> The sample was very small. UNSCO, The West Bank and Gaza Strip Private Economy: Conditions and Prospects: Special Report, Gaza: February 1998, p. 19.

significant differences among economic sectors that lead to demand being present and high in certain types of activities and not in others, or in certain income groups and not in others? Are there certain geographic areas where credit is widely needed or does gender in fact distinguish women, previously ineligible for loans, perhaps needing/demanding more because previously they had been ineligible? Answers to these questions may clarify whether there is, or is not, a demand for credit and will be crucial to answering the questions posed in the scope of work and in developing recommendations and considerations for USAID.

### **III. Work Plan**

The research for this study was conducted by a team composed of Dr. Lucy Creevey, Professor, University of Connecticut and consultant to Weidemann Associates of Arlington, Virginia, (Project Head), Jim Hairston, head of ATMA International, Inc. in Baltimore, Maryland, and Mazen As'ad from Massar Associates, a West Bank-based research firm. Four other researchers from Massar assisted the team including: Hadil Hijazi, Shireen Shaheen, Marisa Kemper, and Valentina Marzili. These researchers acted as field supervisors for the demand assessment survey and assisted Jim Hairston in planning and scheduling his interviews with credit providers. Abed Rahman Arqawa and Hamid Jad provided general technical backup in WBSG. Dina Towbin, Technical Manager, Weidemann Associates, provided overall technical backstopping. Momar N'Diaye, Director, Institute for Public Service International, University of Connecticut, provided technical assistance with statistical analysis. Massar Associates hired 13 enumerators to administer the questionnaires for the demand assessment survey. Annex II contains complete information of the three principal researchers' professional experience.

The research proceeded in four stages:

#### **1. Preparation**

July 2-8, 1999: Preparation of draft questionnaire and code to satisfy terms of scope of work (Creevey) and background research (Creevey, Hairston).

#### **2. Assessment of Credit Demand**

July 9–22, 1999: Preparation of final questionnaire, design of survey sample and survey research procedures, training of enumerators, administration of a pilot questionnaire, revision of questionnaire to final form, construction of a coding frame, final training of enumerators (Creevey, As'ad)

July 2–August 30, 1999: Administration of questionnaire to 650 respondents and coding of questionnaires to coding frame. (Massar Associates staff)

September 9–20, 1999: debriefing of interviewers and primary analysis of survey results (Creevey, As'ad and Massar Associates staff)

September 20- 30, 1999: Statistical analysis of data using various tests of significance including chi square, anova and regression analysis (Creevey, N'diaye)

### **3. Supply of Credit Assessment Study:**

July 9-22, 1999: Organizations Visited (Jim Hairston)

The following commercial banks, NGOs, and suppliers of raw materials to microenterprises on credit that were contacted to provide information on the extent of their credit programs available to microenterprises.

#### **Commercial Banks:**

- Arab Bank
- Bank of Jordan
- Cairo Amman Bank
- Commercial Bank of Palestine
- A.N.Z. Grindlays Bank
- Jordan National Bank
- Bank of Palestine Lt.
- Principal Bank of Development and Agricultural Credit

#### **Non-Governmental Organizations:**

- CARE
- Save the Children / Faten
- ANERA
- Center for Women's Economic Projects "CWEP"
- Arab Center for Agricultural Development "ACAD"
- Palestinian Agricultural Relief Committees
- YMCA

#### **Raw Materials Suppliers:**

- Paint Supplier
- Wood Supplier

#### **International Organizations:**

- United Nations Relief and Work Agency (UNRWA)
- Chemonics International

### **4. Final Report**

September 30- October 15, 1999: Preparation of draft final report and submission to USAID. (Creevey, Hairston, Towbin)

October 15-31, 1999: USAID response and preparation of final version. Submission to USAID. (Creevey, Hairston, Towbin)

#### **IV. Report Profile**

This report has been divided into five chapters. Chapter I discusses the study's scope of work and its rationale and defines the research time table. Chapter II presents a brief background on the microenterprise sector in WBGS and discusses its credit supply. Chapter III presents and analyzes the results of the Survey on Demand for Credit. Chapter IV presents the results of the assessment of the supply of credit. Chapter V uses the major findings of the two lines of research to answer the questions presented at the beginning of Chapter I. Based on this analysis, the chapter presents the team's final conclusions and recommendations to USAID.

## **Chapter II**

### **The Microenterprise Sector and Credit in the West Bank and Gaza**

#### **I. Background**

Microenterprises in the West Bank and Gaza Strip (WBGS) operate within a specific economic context that is insecure and subject to rapid change. WBGS has been occupied by Israel since 1967 and is subject to Israeli control. Israeli policy and changes in the Israeli economy shape the entire pattern of growth and development. The WBGS economy has been meshed with Israel's economy with resultant significant labor flows into Israel, a narrow range of WBGS exports, and a large influx of Israeli exports to WBGS. Israeli policy has created major distortions in WBGS land, labor, and capital markets and, as a result, the viability of its agriculture, manufacturing, and many service activities has been reduced. The entire economy is subject to severe upheavals owing to civil unrest and Israeli suppression of the latter. Since 1993, Israel's closure and separation policies have had a serious negative effect on the growth of the WBGS economy. The United Nations Special Coordinator of the Occupied Territories (UNSCO), indeed, states that "closures have been the main factor behind as estimated 18 percent decline in GNP."<sup>9</sup>

A major impact of closures is to restrict the flow of workers into Israel and create serious job insecurity for those who depend on such jobs. The net result of this crisis economic situation is to force many workers into informal sector/ microenterprise jobs and to keep this "safety net" sector important both in terms of jobs and Gross Domestic Product (GDP) growth. Economic statistics from 1998 indicate a slight improvement in the economic situation. For example, GDP grew 3 percent in 1998 (in sharp contrast to any other year since 1994). There was also a 16.9 percent increase in permit-holding WBGS workers employed on a daily basis in Israel and Israeli settlements, and unemployment fell from 29.7 to 20.9 percent between 1997 and the end of 1998.<sup>10</sup> Nonetheless, the WBGS economy remains fragile. There has been a decline in average real household expenditures -2.1 percent in inflation-adjusted terms in 1998. The recessionary trend in Israel appears (in the first quarter of 1999) to be negatively impacting the number of jobs available for WBGS workers in Israel, and private investment remains difficult to generate with the specter of further political instability on the horizon.<sup>11</sup> In this context, it is not surprising that the microenterprise sector remains extremely important for the livelihood of a large part of the population.

Not only is the economy unstable in the WBGS, but microenterprises are further disadvantaged because of the high cost of living. and goods and supplies necessary for business are, as a result, relatively expensive and the markup very small. The per capita income in all of WBGS is \$1,726 per year (\$2,140 in the West Bank and \$1,110 in Gaza); 23 percent of the population lives below the poverty line of whom 60 percent are in "deep" poverty, unable to fill their basic needs of food, clothing and housing.<sup>12</sup> But goods and services needed for businesses (inputs), largely

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<sup>9</sup> UNSCO, The West Bank and Gaza Strip Private Economy: Conditions and Prospects; Special Report Gaza: February 1998, p. I, 1-4, UNSCO, Report on Economic and Social Conditions in the West Bank and Gaza Strip Gaza April 1999, p.ii.

<sup>10</sup> Ibid., p. 2 and Palestine Central Bureau of Statistics (PCBS), Annual Report 1998 (April 1999), p. 45

<sup>11</sup> UNSCO, Report on Economic and Social Conditions, pp iv-v.

<sup>12</sup> Figures are from 1997. The poverty line is estimated in this report for an individual to be \$1,229.41. National Commission for Poverty Alleviation, Palestine Poverty Report 1998 (PNA 1999), p. 33

coming from Israel because of the border restrictions, are priced relatively high. Thus, ironically, loans needed by microenterprises may be quite large relative to other developing countries. Where in a country such as Bangladesh, \$50 may be enough to allow a small producer or petty trader to make serious improvements to his/her business, in WBGS, even \$250 may not be enough to buy the required material to achieve the same end. Thus, a mid-level microentrepreneur who requests a \$5,000 loan will not necessarily have a very successful and profitable business or be in the “high-end” group which is not considered here. In analyzing demand in this sector, this economic imperative must be considered

## **II. Microenterprises**

### **A. Type and Distribution**

In 1999 (1997 figures), the WBGS microenterprise sector was large and diverse with 74,352 known establishments.<sup>13</sup> Private enterprises employed 191,361 people or 22.4 percent of the labor force (in a total working-age population of 1,389,208). Microenterprises, forming 97 percent of private enterprises, provided the largest share of these jobs.<sup>14</sup> In 1997, the Palestine Central Bureau of Statistics conducted a survey of WBGS establishments. The survey results, published in the Establishments Report: Final Results in 1998, provide considerable information on microenterprises, which was not available when earlier studies of credit demand in the sector were conducted. Table 1, below, shows the distribution of microenterprises (employing less than 10 employees) in the four principal sectors of activity: agriculture, manufacturing, trade, and services.

**Table 1: Area of Activity of Establishments with less than 10 Employees in West Bank and Gaza**

<b>Economic Activity</b>	<b>Number of Establishments</b>	<b>Percentage of Total Establishments</b>
<b>Agriculture</b>	6,352	8.5%
<b>Manufacturing</b>	14,891	20%
<b>Trade</b>	39,359	52.8%
<b>Service</b>	13,920	18.7%
<b>Total</b>	<b>74,562</b>	<b>100%</b>

This table, however, also suggests certain data collection/coding problems in this Report that need to be understood before extrapolating from it the actual microenterprise sector. Both

<sup>13</sup> This report distinguishes employment size at the lower end by the following groups: 1-4, 5-9, 10-19. As a result, our definition of a microenterprise (10 or less) is not identical to theirs. This, however is not a significant problem as only 1,632 or 6% of the total number of enterprises fall in the 10-19 category. (PCBA), Establishments Report: Final Results (Ramallah: December 1998), p.41.

<sup>14</sup> These figures may underestimate the employment provided by microenterprises and the informal sector. Ibid., pp 42, 106; UNSCO, Report on Economic and Social Conditions in the West Bank and Gaza Strip Gaza: April 1999, p. ii-iii, 17.



agriculture and services are underestimated. Only 8.5 percent of the total of micro establishments are classified as agriculture, animal husbandry, or fishing businesses (or mining) in this table, yet 12.1 percent of the labor force is in agriculture, etc. with mining excluded. In this table, only 18 percent of all microenterprises are in service activities, but 27 percent of the labor force are in service activities, even with hotels and restaurant work excluded.<sup>15</sup> This may suggest an underestimation of the two sectors. In fact, the Report did not exclude unregistered businesses (informal sector establishments) from its database. A significant proportion of the smallest enterprises, however, may not have been considered, particularly those without an actual shop or other permanent location distinct from the place of residence. Until there is a survey of the informal sector,<sup>16</sup> it is not possible to know definitively whether this makes the microenterprise sector 10 or 20 or 40 percent or more than the census of establishment shows, (although it is unlikely to be this large a disparity given the data collection procedures). But certainly some informal sector businesses are left out. Furthermore, excluding all but livestock from the agricultural sample and coding and traditional service activities (such as auto repair) as trade, contribute to the underestimation of these sectors.<sup>17</sup> It remains true, nonetheless, that in WBGS, the trade sector is the largest, as it is in most developing countries. The agricultural sector, however, is certainly significantly larger than indicated (despite a substantial decline since 1994 in agricultural production's contribution to the GDP)<sup>18</sup> and the service sector at least slightly larger than the table suggests.

Microenterprises are found in both the West Bank and Gaza Strip, although not evenly distributed by number and/or type. Table 2, below, shows the number of all private enterprises by region and population centers therein. No exact figures are available that show the exact distribution of the types of microenterprises. Basic manufacturing, trade, and service enterprises are found in all the larger cities and towns, while agriculture is predominantly in villages. Microenterprises in subsistence occupations such as the trade of fresh fruits, vegetables and meats, exist in all areas. However, the different geographic areas do have different specialties. Thus, in agriculture, Gaza is known for the production of strawberries, flowers, cherry tomatoes, and potatoes. Jenin, in the flat northern WB region, produces grains and truck garden vegetables. Hebron is known for peaches and grapes. Jordan, which is always warm, is the primary area for the production of bananas and supplies vegetables in all seasons. Fishing enterprises are largely concentrated in Gaza. There are some different manufacturing concentrations in different regions too. For example, embroidery is a specialty of Hebron, Bethlehem, and Jerusalem. Olive wood and mother of pearl items are produced almost exclusively in Jerusalem and Bethlehem. Carpets are largely produced in Gaza, while Hebron also specializes in ceramics production.

Table 2 shows the distribution of the populations and enterprises by major municipalities throughout WBGS.

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<sup>15</sup> PCBS, Labour Force Survey; Annual Report: 1998, p. 80.

<sup>16</sup> MAS, the Palestine Economic Policy Research Institute, plans to conduct a survey of this sector in 2000.

<sup>17</sup> PCBA, Establishments Report; Final Results, pp. 16,41.

<sup>18</sup> Palestine Monetary Authority (PMA), Third Annual Report; Statistical Annex, p. 97

**Table 2: Distribution of Enterprises in the West Bank and Gaza**

Location	Population	Percentage of Population	Number of Enterprises	Percentage of all Enterprises
<b>West Bank</b>				
Jenin	203,026	10.8%	7,545	13.9%
Tubas	36,609	2%	722	1.3%
Talkarm	134,110	7.1%	4,776	8.8%
Qalqilya	72,007	3.8%	2,359	4.3%
Salfit	48,538	2.6%	1,230	2.3%
Nablus	261,340	13.9%	10,437	19.3%
Ramallah & Bireh	213,582	11.4%	7,211	13.3%
Jerusalem	328,601	17.5%	2,980	5.5%
Jericho	32,713	1.8%	688	1.3%
Bethlehem	137,286	7.3%	4,555	8.4%
Hebron	405,684	21.7%	11,700	21.6%
<b>Total</b>	<b>1,873,496</b>	<b>100%</b>	<b>54,203</b>	<b>100%</b>
<b>Gaza</b>				
North Gaza	183,373	17.9%	3,133	14%
Gaza	367,388	35.9%	10,353	46.2%
Deir Al-Balah	147,877	14.5%	2,613	11.7%
Khan Younis	200,704	19.6%	3,900	17.3%
Rafah	122,865	12%	2,429	10.8%
<b>Total</b>	<b>1,022,207</b>	<b>100%</b>	<b>22,428</b>	<b>100%</b>
<b>Grand Total (WBGs)</b>	<b>2,895,683</b>		<b>76,631</b>	<b>100%</b>

## B. Gender

In 1996, the Microfinance Assessment Study reported that, because of the historical role of women in Arab societies, women are still primarily homemakers (only 8.8 percent were said to be in the labor force in 1994 in all of WBGs). However, an increasing percentage of women were said to be entering the labor force because of closures preventing men from getting to work and declines in remittance income.<sup>19</sup> In 1999, the situation changed somewhat. While 88.7 percent of all women are still outside of the labor force, 80 percent of those included are employed in the West Bank. Of the women included, one-fourth are in agriculture and half in the service sector. It is interesting to note that the percentage of women's labor force participation has not risen significantly since 1995, indicating that a move towards greater employment of women is not moving going very quickly.<sup>20</sup>

In the microenterprise sector, the percentage of women involved is higher. Women are engaged as both paid and unpaid workers and as owners, especially of household businesses. For all of WBGs, 31,171 women are said to be engaged in all enterprises; this is 16.2 percent of the people

<sup>19</sup> Silcox, Jensen, and Kula, *Microenterprise Finance Sector Assessment of the West Bank and Gaza: Final Report*, p. 20.

<sup>20</sup> 73.5% of women not in the labour force gave as their reason "homemaking." PCBS, *Labour Force Survey 1998* (Ramallah: 1999), pp. 93, 45.

engaged in enterprises. The percentage is substantially lower in Gaza Strip, where only 11 percent of the total engaged in enterprises are women. This number, of course, reflects both public and private establishments and does not exclude social work, education, and other businesses not covered in the microenterprise survey conducted in this research.<sup>21</sup> It appears, however, that the Census of Establishments does not cover women who run businesses in their home such as knitting, embroidery, or sewing, (occupations mentioned in a 1994 USAID study as increasing as the economic situation slowly leads larger numbers of women begin to seek income-generating activities.<sup>22</sup>) Thus, it is likely that at least 10 to 15 percent of those engaged in microenterprises are women and this percentage may increase in certain types of enterprise. Few women are reported to be business owners, however, again, home-based industries appear to have been excluded. Women have traditionally had less access to credit than men since they do not have collateral and often do not have bank accounts or other savings (except for items like jewelry, a traditional form of savings for women). This study, then, looks at women's demand separately from that of men and considers special conditions necessary for including them in credit programs.

### **III. Credit Sources**

In 1995, when research for the initial Microenterprise Finance Sector Assessment was done, “there was no tradition of microenterprise lending within the formal banking system of Gaza or the West Bank,”<sup>23</sup> despite the importance of the sector to the economy. In fact, there were few banks open at all—in 1993, there were only two Arab banks. Since that time, however, the banking sector has expanded—there are now 22 banks in WBGS with 100 branches. Of these, 9 are domestic and 13 international banks, of which 10 are of Arab origin. Bank credit to private businesses—between 1997 and 1998—rose by 9.3 percent to a value of US\$ 467.3 million.<sup>24</sup> The bulk of loans provided by most banks still went to larger more secure businesses or individuals with collateral to pledge. Certain banks, however, such as the Arab Bank, the Bank of Jordan, and Jordan National Bank have opened programs for small and microentrepreneurs. It is also interesting to note that several commercial banks reported (in this survey) that the microenterprise and small enterprise sectors are better more reliable borrowers. This is because they somehow manage to repay their obligations, whereas the delinquency rate is higher with the larger-sized (or wealthier) borrowers.

NGOs and UN agencies add significantly to the amount of credit available to the microenterprise sector from formal banking institutions. As UNSCO notes, lending programs administered by the different NGOs and UNRWA continued to expand in 1998. “These programs complemented the role of the banking system by lending to those who are either not bank customers or whose businesses do not qualify under bank lending criteria...” The total value of loans disbursed to small and medium-sized businesses by NGOs and UNRWA in 1998 was US\$ 28.2 million, an increase of 16.6 percent from 1997. More than 50 percent of these loans have gone for manufacturing, 25 percent for agriculture, and 25 percent for service and commercial activities. This redresses (to some extent) the private bank emphasis on commercial activity in their more

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<sup>21</sup> PCBS, *Establishments Report*, p. 106.

<sup>22</sup> Silcox, Jensen and Kula, *Microenterprise Finance Sector Assessment of the West Bank and Gaza; Final Report*. (February 1996), p.20.

<sup>23</sup> Ibid, p.1

<sup>24</sup> UNSCO, *Report on Economic and Social Conditions in the West Bank and Gaza Strip*. Gaza: Spring 1999, p. 10.

conventional loans.<sup>25</sup> (Chapter IV, below, specifically notes different banks and NGOs, which lend to microentrepreneurs, loan size and terms to this sector, number of borrowers, and amount of credit outstanding.)

Although there has been a significant increase in the amount of credit made available to the microenterprise sector from banks, NGOs, and the UN, most microentrepreneurs apparently do not access this credit. A 1998 study (in the Aleizariah and Ramallah/Bireh areas) found only 2 percent of its sample had used loans from banks or NGOs as start-up; 77 percent had started their businesses with money from their families or from personal savings. Only six percent of the sample had obtained a loan from a bank or an NGO after the start-up as well.<sup>26</sup> This sample was small and restricted to one (central) area of the West Bank, however, it probably realistically underlines the importance of traditional sources of funds, especially to the smaller poorer businesses.

In 1996, the Microfinance Assessment study reported that there were three major sources of short-term credit: supplier credit, money changers, and informal rotating saving and credit associations (called *Jamiyy'aa*) that charge interest at the market rate.<sup>27</sup> The 1998 study cited above suggests that these traditional credit systems continue to be significantly more likely sources for a microentrepreneur than a formal banking institution or NGO. The characteristics of the three credit sources are as follows:

1. **Supplier Credit:** Supplier credit is common among firms involved in small-scale commerce and trade. Typically, microentrepreneurs purchase inventory on short-term credit and repay after the merchandise is sold. The period of the loan is usually short, such as one week to a month.
2. **Money Changers.** Money changers are forbidden by law to offer credit but still do to a substantial number of microentrepreneurs. Typically, money lenders offer credit to people they know and will take post-dated checks as repayment security.
3. **Jamiyy'aa.** This rotating savings and credit association is common in WBGS, especially among women. Members contribute a fixed contribution to the common fund, and each is able to withdraw these funds on a rotating basis.

These traditional credit sources continue to be important to microentrepreneurs, but typically personal savings, remittances, and family gifts are more significant sources of funds. Traditional credit sources have certain built-in drawbacks as well; they are short-term loans at high effective rates of interest, available largely to personal acquaintances and family, and generally are unable to expand their size to meet growing business needs. The issue for this study is to try to ascertain why so few formal or NGO loans are accessed even though the supply has apparently sharply increased. It could be because, despite increases noted above, such programs do not offer credit on terms which the microentrepreneurs at the poorest level can meet. It might be because

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<sup>25</sup> UNSCO, *Report on Economic and Social Conditions*, p. 13-14.

<sup>26</sup> Massar Associates, *Microfinance Baseline Survey: Final Report* (prepared for Microenterprise Lending Program, Chemonics International, Arab Bank, USAID) Ramallah: May 1998, p. 32

<sup>27</sup> Silcox, Jensen and Kula, *Microfinance Sector Assessment*, p. 13.

microentrepreneurs do not have information about programs which exist or simply do not like the loan terms. Given political insecurity and fluctuations in the business climate in WBGS, it could be that microentrepreneurs do not trust formal institutions and do not want to be in debt. These and other questions are explored in the following chapters, which look more closely at expressed demand among microentrepreneurs and banker/NGO offerings and experience with this sector in WBGS in 1999.

## Chapter III

### Survey Results on Demand for Credit

#### I. Introduction

The questionnaire for the demand for credit survey of microentrepreneurs was developed in the United States based on a previously tested model and then revised in consultation with Massar Associates in Ramallah to adapt the questionnaire to WBGS. Thereafter, it was pre-tested and then revised into its final form on July 18 and 19, 1999. The questionnaire is included in Annex III.

Dr. Lucy Creevey, with Mazen As'ad and the Massar Associates team, chose a randomly-selected sample of microentrepreneurs operating in WBGS in July and August 1999. A multi-stage random sample was carefully crafted, so that it would not only distinguish among demands of different types of establishment, but also be the best overall representation of all existing microenterprises in both regions.

- In villages and for the agricultural sample, we systematically selected every third to fifth farm (depending on population density).
- In towns and for the three other areas of activity (manufacturing, trade and services), for each sector and location, we systematically selected every third establishment. Note that only establishment proprietors able to make financial decisions for the enterprise were included and only those who had fewer than 10 employees were considered in the sampling.<sup>28</sup> The following key characteristics were taken into consideration in the final design and selection of sample components:
  - Formal/informal
  - Gender
  - Type of Business
  - Location:
    - i. Permanency of structure
    - ii. Urban/rural/camp
    - iii. Geographic Distribution
  - No. of Employees
  - Financial Importance of Business to Client
  - Income (Net Profit)

Through careful stratification we were also able to include more women owners of microenterprises than would have been possible had we used a simple sampling design. (According to census data, women owners of microenterprises represent less than 9 percent of microenterprise owners in WBGS.) Our sample, therefore, covers all four major sectors of

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<sup>28</sup> Our survey did not include gold and jewelry shops, electrical/electronics supply stores, large-scale leather and metal workers, and any shop exhibiting highly sophisticated equipment and expensive premises. We included family farms and enterprises run from home.

activity: agriculture, trade, manufacturing, and service. It also ensures sufficient representation of women, proprietors of agricultural establishments and services, and those from Gaza, although this means their percentage of the total is higher than it would be if we allocated percentages by actual distribution. Since this study is not assessing the distribution of types of enterprises, but rather the demand for credit among different sub sectors of enterprise owners, this decision appeared justifiable. A full discussion of the sampling decisions is included in Annex III.

The field (survey) work was conducted in July and August 1999 by a team of 13 enumerators (7 in the West Bank and 6 in Gaza).

### Survey Results: Demographics

Tables 1 and 2 below contain a summary of the key demographic characteristics of the businesses surveyed.

**Table 1:**  
**Sample Distribution in the West Bank/Actual**

Location	Sector					
	Manufacturing	Trade	Service	Agriculture	Total	%
Urban	58	100	75	3	236	57
Rural	14	26	18	80	138	34
Camp	10	16	11	1	38	9
Total	82	142	104	84	412	100
Percentage	20%	35%	25%	20%	100%	

**Table 2:**  
**Sample Distribution in Gaza/Actual**

Location	Sector					
	Manufacturing	Trade	Service	Agriculture	Total	%
Urban	38	48	38	19	143	55
Rural	6	12	5	22	45	17
Camp	17	29	13	14	73	28
Total	61	89	56	55	261	100
Percentage	23%	34%	21%	21%	100%	

**Table 3:**  
**Sample Distribution by Sector and Location in the West Bank and Gaza Strip**

<i>Location</i>	<i>Manufacturing</i>	<i>Trade</i>	<i>Service</i>	<i>Agriculture</i>	<i>Total</i>
<b>West Bank</b>					
Jenin	10	27	16	19	72
Tulkarim	11	14	8	8	41
Nablus	22	31	29	13	95
Ramallah	15	26	17	12	70
Jericho	0	0	0	10	10
Bethlehem	7	15	10	2	34
Hebron	17	29	24	20	90
<b>Total</b>	<b>82</b>	<b>142</b>	<b>104</b>	<b>84</b>	<b>412</b>
<b>C. Gaz a Stri p</b>					
North Gaza	16	34	18	27	95
Gaza	27	34	36	12	109
Khan Younis	18	21	2	16	57
<b>Total</b>	<b>61</b>	<b>89</b>	<b>56</b>	<b>55</b>	<b>261</b>
<b>Grand Total</b>	<b>143 (21%)</b>	<b>231 (34%)</b>	<b>160 (24%)</b>	<b>139 (21%)</b>	<b>673 (100%)</b>

Respondents were generally between 25 and 40 years of age. Most had had at least some secondary schooling. Women were slightly, but not significantly, better educated than the men. These findings suggest a respondent sample that differs slightly—but noticeably—from the “average” in WBGs.<sup>29</sup> This is an older and better educated group. It is also notable that, although women provide a substantial proportion of labor on the farms in WB, few women were in agriculture in our sample. Part of the reasons for these discrepancies have to do with the requirement in the study that respondents be business owners. Few women are business owners and those who are tend to be widowed or have disabled husbands and to be better educated than the average women. Men too are better educated than the norm and older in this sample and for the same reason: they had to be business owners, not just workers in an establishment.

<sup>29</sup> Average amount of education for adults in WBGs is 8.8 years; 39% of people aged 20 to 24 and 23% of those aged 35-44 are at secondary school level. National Commission for Poverty Alleviation, Palestine Poverty Report 1998 (Ramallah, 1999) p.98.



**Table 4: Respondent Characteristics**

<b>Gender</b>	<b>Men</b>	<b>Women</b>
<b>Region</b>		
West Bank	86%	14%
Gaza Strip	87%	13%
<b>Age</b>		
-25	11%	3%
26-40	45%	56%
41-60	37%	40%
61 +	7%	1%
<b>Education</b>		
No schooling	3%	5%
Some or all Primary	35%	25%
Some or all Secondary	62%	70%
<b>Sector of Activity</b>		
Agriculture	23%	8%
Manufacturing	22%	15%
Trade	32%	48%
Service	23%	29%

### Business Characteristics

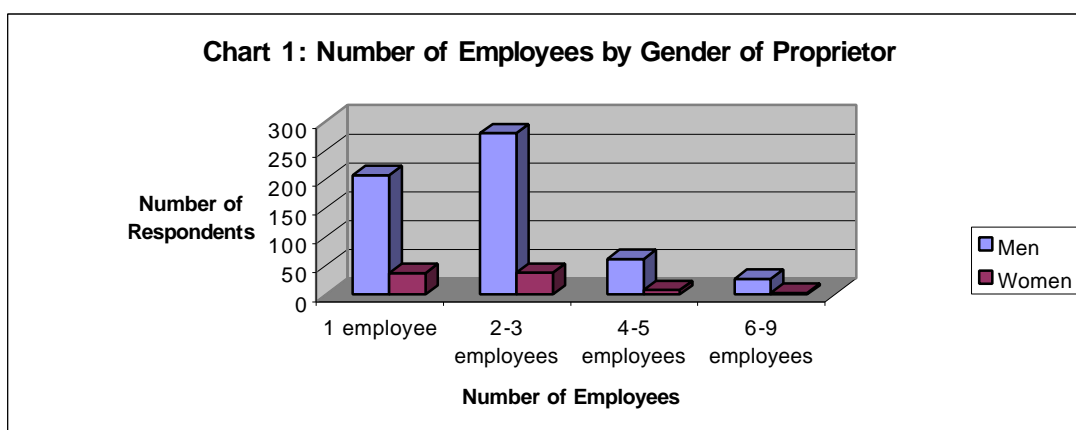
Among the male respondents, most of those in agriculture produced fruits and vegetables. A plurality of those in manufacturing produced furniture followed by metal products, soft drinks, and clothing. Most men in trade were in retail, not wholesale, while a large number of those in the service sector did personal services such as cleaning, and car maintenance and repair. The few women in agriculture were spread from poultry or livestock to fruits and vegetables. Most women were in retail trade, but there was a smaller but substantial group in personal services such as sewing, knitting, and hair dressing. There were no significant differences among the four sectors of activity in terms of the start date of the businesses. About half of the enterprises in each sector had begun operating in the 1990s, (but before 1998). About a third had begun their business before 1990.

Seventy-two percent of the respondents did not live in the premises where they conducted their business. Of those who did live on their business premises, most were either farmers or in manufacturing. Among those in agriculture, 28 percent owned properties larger than 5 *dunums* and 42 percent owned smaller properties. Approximately a third rented their farms. There was a slight but insignificant difference between regions as more farmers had larger properties in the West Bank than in Gaza. In the manufacturing, trade, and services sectors, most respondents (63%) rented a shop or building and 31 percent owned the structure. Only 6 percent overall were open air vendors. There were some differences in this distribution, especially according to gender and region. In specific, those in Gaza were more likely to be open air vendors than microentrepreneurs in the West Bank, while women did not have open air businesses at all.

**Table 5: Permanency of Business Structure**

Category	Owns	Rents	Open Air Vendor
Manufacturing	33%	60%	7%
Trade	29%	65%	6%
Service	27%	64%	9%
Men	29%	64%	7%
Women	38%	62%	0%
West Bank	34%	66%	0%
Gaza	28%	62%	10%

Most of the entrepreneurs, both male and female, had only one to two employees.



**Chart 1: Number of Employees by Gender**

Most respondents (88%), both male and female, ran their businesses 12 months of the year. In addition, these enterprises were the major source of income for almost all respondents; 93 percent had no other business and were not employed by other enterprises. Two significant differences between men and women emerged, however, in regard to when business was most profitable and to the actual level of sales per month.<sup>30</sup> More men than women were likely to report higher sales in earlier years, although almost 50 percent of the men felt their sales were highest since 1997. Women (67%) were significantly more likely to say that this more recent period was the highest point in their average sales per month history (67%).<sup>1</sup> Actual amount of monthly sales was also markedly and significantly different, with women reporting an average per month of \$1,101 and men \$2,601.<sup>2</sup> The latter figures need to be used with the utmost caution for two reasons. First, most proprietors of microenterprises generally do not keep records and second, respondents were very hesitant to answer in regard to sensitive matters such as how much they earned for fear of the information leading to tax or other official notice.<sup>31</sup> It is believed, based on field reports, that respondents generally UNDER-estimated their sales.<sup>32</sup> Nonetheless, there is little reason to believe that this obviates these observed gender differences.

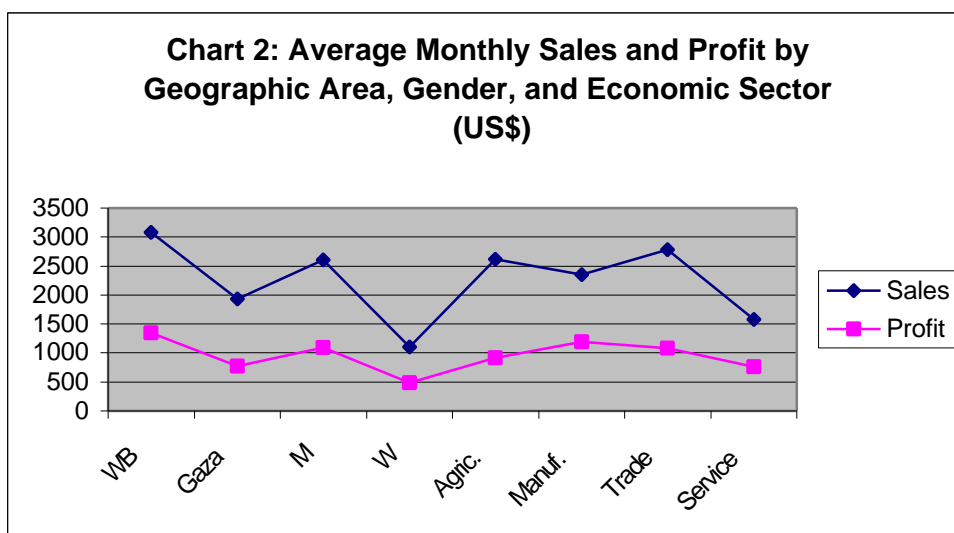
<sup>30</sup> Significant result figures are listed in end footnotes.

<sup>31</sup> 224 respondents did not answer the sales question.

<sup>32</sup> See notes and comments (Annex VI) by Mazen As'ad, Team Leader, Massar Associates.

Actual monthly net profit (as estimated by enumerators with data from respondents) is also significantly different for men and women with men averaging \$1,091 per month and women \$485.<sup>3</sup> There was also a significant difference between sectors of activity and level of monthly sales and profits. The largest difference emerged in sales figures, which were significantly greater for trade and agriculture and lowest for services.<sup>4</sup> This, of course, may be explained by the costs of production in the former two areas. Once actual profits are estimated, the size of the difference is reduced and the distribution of profits is not significantly different across the four groups. The largest difference remains between gender groups.

Thus, taking only those in the trade sector, there is again a very significant difference between average profits reported for men and women (\$1,212 versus \$436), much stronger than the mean difference between any of the sectors.<sup>5</sup> Not surprisingly, there is also a strong and significant difference between the West Bank and Gaza Strip in regard to both monthly sales and profit levels. The former reports much higher average sales of \$3,082 and net profits of \$1,352, while the latter reports \$1,927 and \$778 respectively.



Again the problems with the sales and profit figures should be noted. Respondents are reluctant to talk about actual monies earned. In regard to estimating sales and profits with the data they provided, we encountered a common problem: their underreporting of sales and over-reporting profits (relative to sales). In the latter case, owners are known to often not pay family members they employ (or themselves). They therefore do not include these costs in what they report. Net profit here may be somewhat high.<sup>33</sup> Thus, the importance of these figures is more in terms of comparison among groups determined by region, sector, and gender, and for later analysis here if tendency towards more successful businesses predicts to experience with formal credit and/or greater interest in access to credit.

Businesses were approximately half in the formal and half in the informal sector, if this is measured by registering a vehicle for the business and/or registering the business and/or paying taxes. Overall, there was no significant difference by sector of activity as to whether or not the

<sup>33</sup> GNP per capita per annum for WBGS is only \$1,726 (\$2,140 in the West Bank and \$1,110 in the Gaza Strip). 23% of the WBGS population are below the poverty line.

business was a formal sector one. The only exception noted was between farmers and others; farmers were much less likely to register their businesses or pay taxes. Not surprisingly, there were also significant regional and gender differences. Women were more likely to have informal sector businesses (by this definition), and people in Gaza were more likely than respondents from the West Bank to have informal businesses as well.

**Table Six6: Formal and Informal Sector Distribution**

Category	Registered vehicle	Registered business	Paid Tax
<b>All</b>	No 43%, Yes 57%	No 48%, Yes 52%	No 53%, Yes 47%
<b>Farmers</b>	No 43%, Yes 57%	No 71%, Yes 29%	No 73%, Yes 27%
<b>Manuf, Trade, Svc</b>	No 43%, Yes 57%	No 42%, Yes 58%	No 48%, Yes 52%
<b>Men</b>	No 38%, Yes 62%	No 45%, Yes 55%	No 50%, Yes 50%
<b>Women</b>	No 76%, Yes 24%	No 72%, Yes 28%	No 73%, Yes 27%
<b>West Bank</b>	No 39%, Yes 61%	No 43%, Yes 57%	No 48%, Yes 52%
<b>Gaza</b>	No 47%, yes 53%	No 55%, Yes 45%	No 57%, Yes 43%

Most respondents (68%) did not have a bank account of any kind. Few had any savings (none: 87%) and virtually no one (97%) owned stocks or bonds. Most claimed to own no vehicle or have jewelry or other valuable assets (64%). However, almost two-thirds of the respondents (62%) did have a person (family member or other) who could guarantee a loan for them.

### **Credit History**

Understanding the implications of the credit history of the respondents to this survey requires remembering again that formal loans have not been widely available until recently and that, even in 1993, there were only two Arab banks and no tradition of loaning to the microenterprise sector. Since more than half the sample started their business before 1996 (and a third before 1990), it is not surprising that few of them used loans from any formal sector establishments such as banks, financial institutions, or NGO loans for the start-up of their enterprises. More than two-thirds of them had relied on their own personal savings, with the next largest group (15%) stating that they had used gifts or inheritance for start-up. Ten percent had had a loan from their family. Only 14 people had had bank or financial institution loans and only 4 had loans from an NGO. Only 3 percent reported a loan or supplier credit from a middleman or a money lender; most of these were borrowing from a middleman who offered trade credit.<sup>34</sup> Thus, credit of any kind was not a major factor enabling them to start-up or acquire their businesses. This was true for men and women, for both the West Bank and Gaza, for the more and less educated, and for formal and informal businesses.

<sup>34</sup> Some family loans may actually be from people who act as middlemen for non-family members as well.

**Table 7: Loan as Principal Source of Start-Up Money**

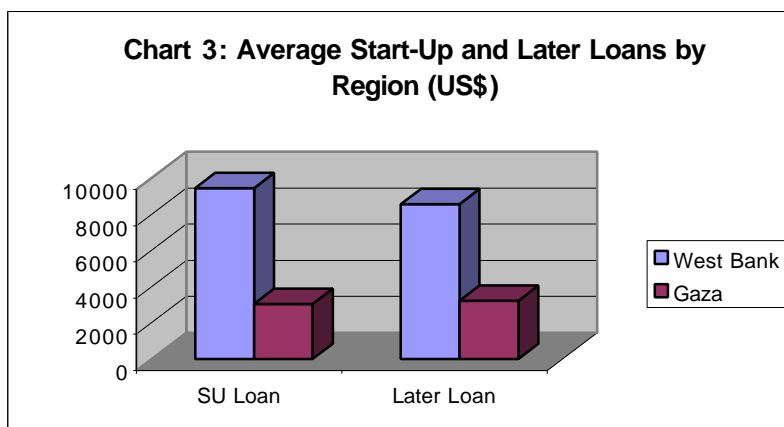
Sector	Did Not Use Start-Up Loan	Had Some Form of Loan
<b>Agriculture</b>	86%	14%
<b>Formal Sector Loan</b>		2%
<b>Manufacturing</b>	87%	13%
<b>Formal Sector Loan</b>		3%
<b>Trade</b>	89%	11%
<b>Formal Sector Loan</b>		1%
<b>Service</b>	85%	15%
<b>Formal Sector Loan</b>		3%

Among those who had loans, including family loans, about half had received loans in dollars and slightly more than a third had received them in shekels (while the rest received Jordanian dinar). Our data shows that 48 percent had their loans for a period of 6 months to 1 year, but as many as 34 percent had loans for two years and longer. Among those who had received loans, 43 percent had paid interest with a fixed repayment term but 40 percent had not paid interest, but merely repaid with the profits. Not surprisingly, those who had loans from the family were the ones who repaid with their business profits without reporting interest or term requirements. The average loan amount for all types of start-up loans was \$4,702. There was a significant difference, however, in the average amount received between those who had money from their families and those who received formal loans (\$5,467 versus \$7,339). We noted that 36 percent of those with loans from their families had not put up collateral for their loans; those who had, in fact, used family guarantees as their collateral. In addition, the data show that 91 percent of those with loans from money lenders or middlemen had no collateral at all, obviously prior knowledge being the basis for loan assessment. Only those with loans from banks or financial institutions were likely to provide the title to their property as collateral (40% did so), but even here 46 percent provided guarantees from their relatives as collateral.

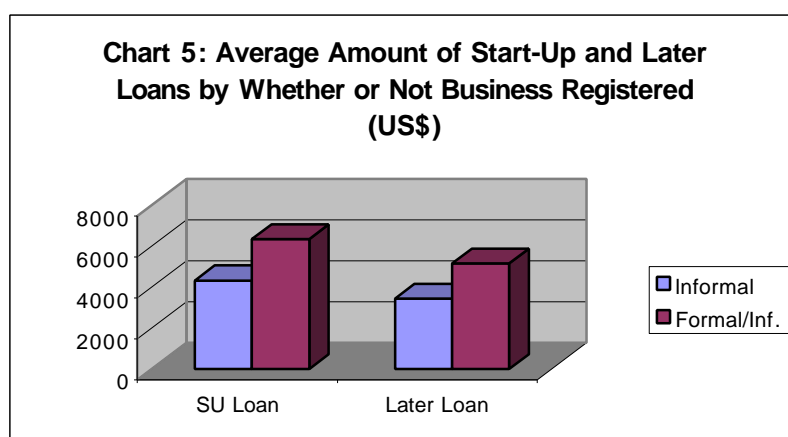
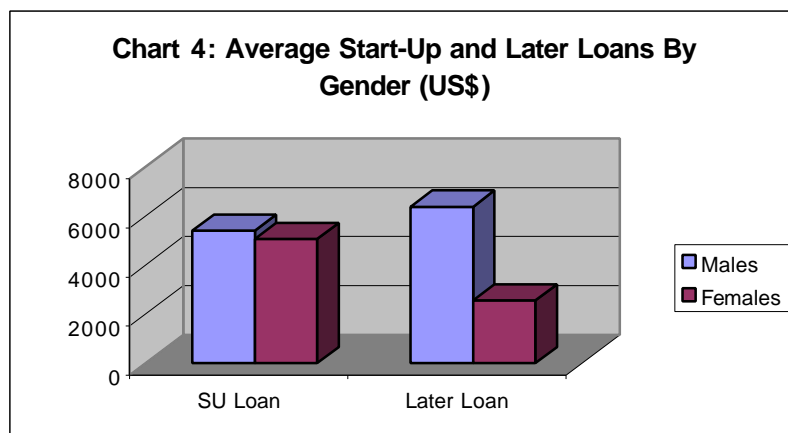
Formal loans may be generally difficult to obtain for businesses just starting up (which might have affected these results). Therefore, a follow-up question was posed concerning any loans that the respondent might have received after start-up. Even fewer respondents had received loans than had received them to begin their business; 92 percent had not received a loan of any kind after the business started. Only a mere 2 percent had received family loans and 6 percent had had a loan from a bank, a financial institution, or an NGO. Of all the loans that respondents received since they started in their business, 89 percent claimed to have made their loan payments on time.

In summary, this survey confirms what earlier studies have shown: that credit from any source other than family has not been a common factor in the start-up and maintenance of most microenterprises. Given political instability, market fluctuations, and the absence of formal credit available to this sector in the past, lack of start-up credit from any formal institution is not surprising. It is, however, notable that even in recent times, the situation has not turned around despite the large increase in numbers of banks, financial institutions, and NGOs with lending programs available to microentrepreneurs.

Looking more closely at loan recipients certain trends are suggested although so few had loans that these trends must be seen as implied but not proven by the data. There was no significant difference in average loan amount between those in agriculture and others in manufacturing, trade, or service occupations. There was, however, a significant difference in loan size between those from the West Bank (average \$7,096) and those from Gaza (average \$3,334), with the latter receiving substantially smaller amounts. This was true for both start-up loans and later loans.<sup>6</sup> This finding is consistent with the lower average income in the latter region. There was a tendency as well for women to receive smaller loans than men, which was particularly pronounced among those with loans after start-up (average size \$4,567 versus \$2,657). Again, this is consistent with the general sales and profit levels of men and women; however, the number of women with loans was too small to make this statistically significant. Education was related to loan size as well with those with less receiving less. Again, this was most pronounced in the groups with loans after start-up, where the group with some high school education or more received, on average, sums higher than those with elementary schooling (average \$4,542 versus \$2,136), although because of small numbers the difference is not statistically significant. Those who had formal (that is registered) businesses also were likely to receive larger loans as were those who paid taxes. These differences were particularly notable among those receiving loans after start-up (Taxes: No: \$3,142 versus Yes: \$5,150).<sup>7</sup> These results suggest that credit and entrance into the formal sector are linked and education appears to also be linked.<sup>35</sup>



<sup>35</sup> These results are further tested using a regression model which confirmed the significance of the relationship. Geographic location, level of education, and gender have a significant positive impact on the amount of loan received. In addition, analysis of variance showed that businesses which pay taxes (formal sector businesses) are significantly more likely to receive larger loans as well.



**Chart 4: Average Start-Up and Later Loans by Gender**

## Demand for Credit

Only a small number of our respondents declared having received formal credit, however, this does not necessarily indicate that potential borrowers do not in fact wish to borrow from a bank, financial institution, or NGO. In many cases, when credit was needed at the start-up of the business, the absence of formal sources of credit for the microenterprise sector might be enough explanation in itself for no formal loans having been received. The credit situation has changed, however, as indicated in Chapter II, above. There are more than 100 bank branches and many financial institutions and NGOs that offer various types of credit to the sector. Of course, not all sectors of economic activity and not all entrepreneurs in different geographic areas have credit programs equally available to them.

In pursuit of what the actual demand for credit is, we attempted to find out if entrepreneurs were aware of existing programs and whether the knowledge of such access was restricted to one group more than to another. In fact, 60 percent of the sample believed that credit programs were available to the microenterprise sector. Only 20 percent said credit was not available, while the other 20 percent said they didn't know. Interestingly, there was a significant regional difference between those from Gaza and those from the West Bank: Substantially more people from Gaza

said that credit was NOT available than from the West Bank (27% versus 15%). A much larger group from the West Bank simply did not know about credit availability. Women were not more likely than men to either say there was no credit or that they didn't know about it. In terms of sector of economic activity, farmers were more likely than other groups to say they did not know if there was credit available or not, while those in the service sector were more likely to say that credit was NOT available to them. Differences among the four sectors of economic activity were not significant, however. Nor were people who had registered their businesses more likely than those who had not to say they did not know about credit or that it was not available. Education, on the other hand, directly predicted to knowledge of credit accessibility. More educated people were more likely to say that credit was available and less likely to say they didn't know about whether or not they could get a loan.<sup>8</sup>

Among those who said that credit was not available, the reasons given varied: 27 percent thought they could not get credit because they had no collateral to offer and 25 percent said that banks "do not lend to small businesses like mine" or that their low profit margin and/or business stability made banks consider their enterprises too risky to proffer credit. Of course, their assessment may have been accurate. It is certainly the case that more successful businesses, those with larger profit margins, were significantly more likely to say that credit is available to them and this difference may be a correct reading of the situation.<sup>ix27</sup>

Perhaps more significant and particular to the WBSGS case is the general absence of concern about not having received a loan. Sixty percent knew loans were available to microentrepreneurs, but how many respondents felt not having a loan themselves, which most of them did not, was a constraint to the development and profitability of their businesses? They were asked to separately rate 18 factors that could be a constraint to business and indicate to what degree these factors affected their own enterprises. In other country studies, most entrepreneurs usually rank credit as one of the more serious problems in the microenterprise sector.<sup>36</sup> In the WBSGS results, only 21 percent felt access to credit was a very important constraint to their business. Other questions concerning conditions for receiving credit elicited no greater interest. Only 25 percent felt high interest rates on credit were a problem to them, 14 percent felt the ceiling on amounts of credit was a serious constraint for their enterprise, and only 12 percent felt too much paperwork in credit applications was a serious constraint to them. Many other factors were much more significant for the majority of respondents. For example, availability and cost of raw materials or inputs was considered a serious constraint by 49 percent. High taxes were cited as a serious problem (very important to them) by 49 percent as well. But the largest concerns were closely related to each other (but not to credit access): 65 percent felt political instability was a serious

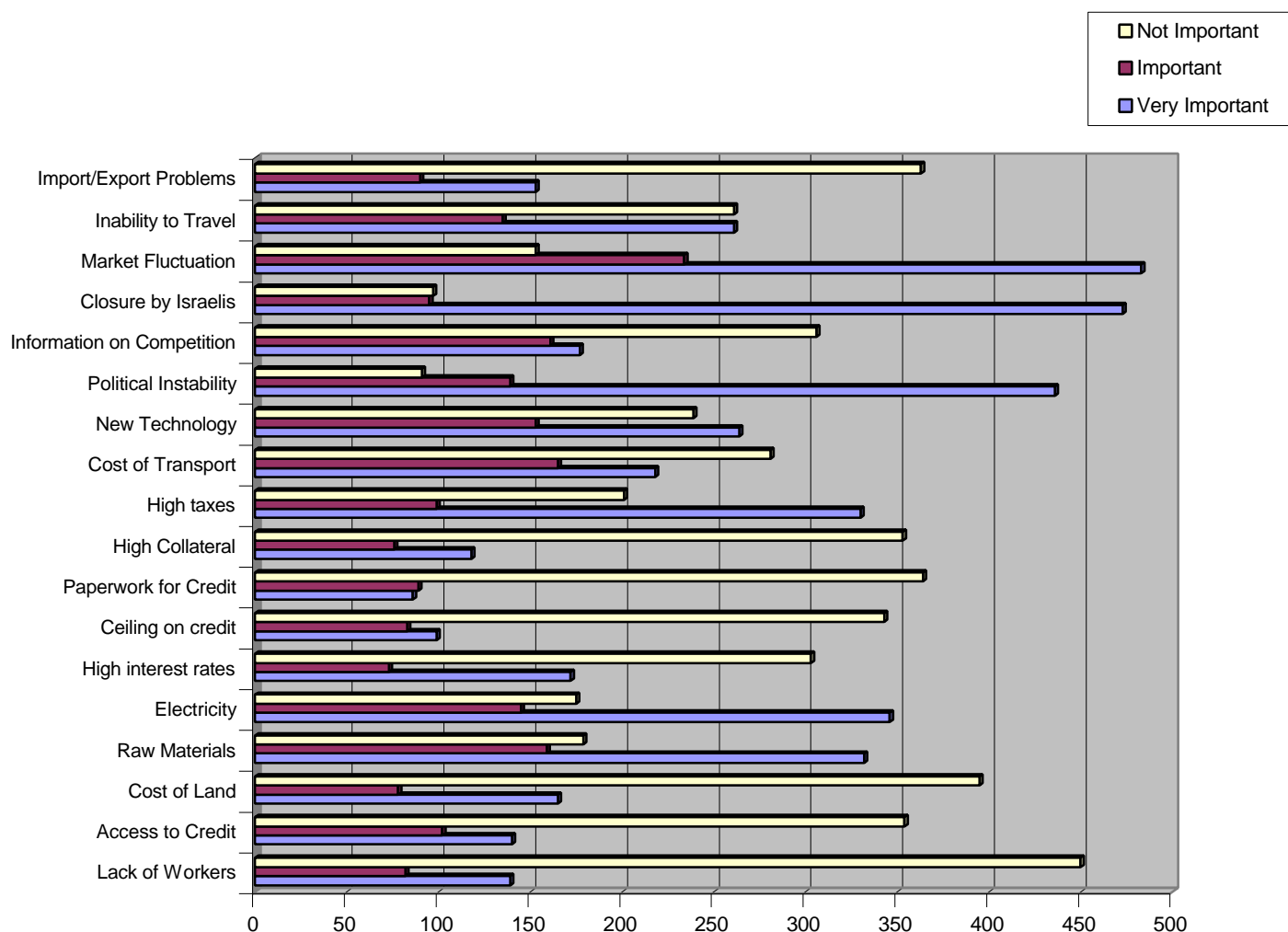
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<sup>36</sup> See, for example, Richard Vengroff, "Niger: the Informal Private Sector," Center for Economic Research on Africa (Montclair, NJ), Occasional Papers, 1992; and "Niger: the Formal Private Sector," Center for Economic Research on Africa (Montclair, NJ), Occasional Papers, 1992; also Vengroff, Manual for Action in the Private Sector-Senegal, USAID, Washington, D.C. (1993); Lucy Creevey, "Report on Linkage Survey among Microentrepreneurs in Pakistan," World Bank, Washington, DC, 1995.



problem, 70 percent felt the Israeli border closures were a serious problem, and 72 percent felt market fluctuations were a serious problem to their enterprise.

**Chart 6: Perception of Importance of Potential Business Constraints (All)**



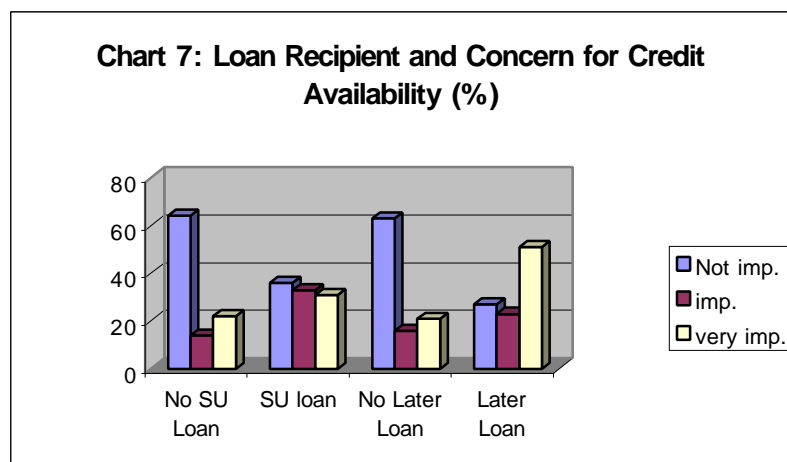
In analyzing the responses to the questions about business constraints, we noticed significant differences in regard to many of the factors identified. Those who are in personal service businesses, for example, are not particularly concerned about transport or about their ability to travel. Women, who are socially constrained in their ability to travel and in public appearances but much less likely to be harassed by Israeli guards (because seen as less threatening), are significantly less likely to identify Israeli closures as a serious problem for their businesses.<sup>10</sup> Women, whose businesses are significantly less profitable, are also less concerned about travel, import/export problems, and taxes.<sup>11</sup>

Differences exist as well among sub-groups in regard to the credit-related factors, and these are of particular interest here. For instance, the region where a respondent lives does make a difference. In Gaza, 65 percent said that access to credit was not a problem, while 54 percent did in the West

Bank. In regard to high interest rates, provisions of collateral, a ceiling on credit, and too much paperwork, these were more likely to be seen as not a problem in Gaza, but the differences between those saying they were not a problem and those saying they were an important or serious constraint were not significant. There was, also, a significant difference in regard to actual type of area in which the respondents resided. Those in refugee camps, followed by others in urban areas, were much more likely to say that lack of access to credit was NOT important to their businesses than rural (non-refugee camp) dwellers. The same tendency was true for conditions for credit. Refugee camp residents were the most likely, followed by urban residents, to say that high interest rates, necessity of the provision of collateral, too much paperwork to get credit, and a low ceiling on credit were not a problem for them.<sup>12</sup> Neither gender nor education predicted to differences in regard to believing access to credit or any credit conditions were problems for respondents' businesses.

In regard to type of business, no significant differences emerged although those in manufacturing were more likely than any other group to say that access to credit, high interest rates for credit, provision of collateral, a ceiling on credit and too much paperwork to obtain credit were problems for them. However, other characteristics of enterprises did predict to significant variation. Businesses, which were registered (in the formal sector) and paid their taxes, were more likely than those in the informal sector to say that access to credit was a problem. They were also significantly more likely to point out that high interest rates, collateral, too much paperwork and a ceiling on credit were deterrents to their businesses.<sup>13</sup> Level of profit margin was also significant. Those who said credit was a problem were more likely to be in the highest third of income levels, while those who said credit was no problem were in the lowest third. The same relationship was found in regard to a ceiling on credit, and too much paperwork to obtain credit.<sup>14</sup>

Initially, the above findings appear counter-intuitive. People with more profitable businesses have easier access to credit and should therefore suffer less from its lack and from constraints imposed by conditions required to borrow money. Urban dwellers, also, might be expected to have more access to loans and also suffer less but refugee camp residents might be expected to have more difficulty in finding credit. Yet urbanites and those with more less profitable businesses, like people from the refugee camps, were more likely to say credit and its conditions were not a constraint on them. This data cannot definitively explain the pattern but an interpretation may be suggested. This is an



analysis of the microenterprise sector where people are in the lower fourth of income levels of the population. It is not surprising that those with better profits in this low income range and those with

formal as opposed to informal businesses would be those entrepreneurs most aware of their business environment in the sample. They would also be equally most aware of the credit gap in the microenterprise sector—the historic lack of loans, their lack of loans, and the constraints that this imposes on the growth of their businesses AND the difficulties which traditional loan conditions may impose on them. This interpretation is reinforced by the fact that the highest level of difference was found among those with start-up or later loans as opposed to those who had not taken a loan. Those who had had credit had clearly looked for loans and were significantly more likely than those who had never had credit (and used their savings or inheritance to start their business) to see lack of access to credit and the various listed credit requirements as credit constraints for their businesses.<sup>15</sup>

Perhaps more telling were the responses to the question as to whether the respondents would take a loan from a bank, financial institution, or an NGO if it were offered to them. Again, in most other studies on demand for credit, the overwhelming majority of respondents would have said yes. In our sample, 60 percent of the sample said they did not want a loan. Those from Gaza were significantly more likely than those from the West Bank to say they did not want a loan. Women were in fact significantly more likely to want a loan than men and, consistently, those with education were more likely than those without to want a loan.<sup>37</sup> There were no significant differences among economic sectors in regard to wanting a formal loan, however, those who had had loans in the past, both start-up and later loans, were significantly more likely than those who had not to want a further loan from a formal institution. There was also a discernible (but not statistically verifiable) trend for those with higher profits and formal businesses (registered and taxes paid) to want a loan in contrast to those with lower profits or non-registered businesses.<sup>16</sup>

Among those who do not want a formal loan, there were widely different reasons as Table 8 below illustrates:

**Table 8: Reasons for Not Wanting A Formal Loan**

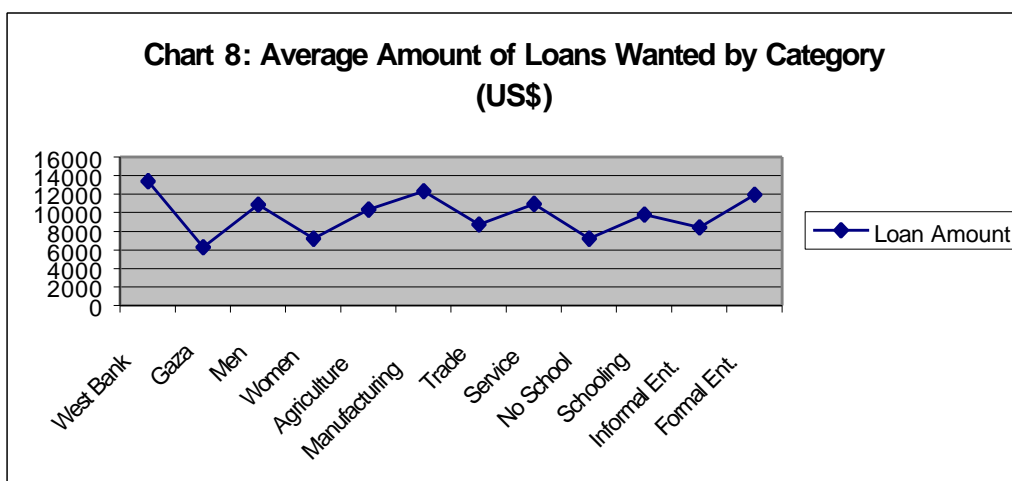
<b>Don't Need a Loan</b>	23%
<b>Religious Reasons</b>	46%
<b>Don't Want to Be in Debt</b>	13%
<b>Interest Rates are Too High</b>	5%
<b>Paperwork is Too Complicated</b>	6%
<b>Terms of Loan are Unfavorable</b>	3%
<b>Collateral Required Too Large</b>	Less 1%
<b>Other</b>	4%

Further analysis of the reasons against borrowing show that gender and education were not significant determinants of which reason people gave for not wanting a loan, (although these variables were, in fact, important in determining wanting a loan at all). Gaza respondents are significantly more likely to not want a loan because of religious prohibitions against borrowing than are those from the West Bank. Those in refugee camps also showed a tendency to be more likely to offer this reason than urban or rural dwellers who were not in camps. People with registered businesses were significantly less likely to offer religious reasons for not borrowing than those in the informal sector and more likely to cite loan conditions such as interest, collateral, etc. Those with

<sup>37</sup> Note again that our sample of women is more educated than of our sample of men, owing to the paucity of female business owners.

the highest profit margin were less likely than those in the lower income category to cite religious reasons for not borrowing and most likely to cite loan conditions.<sup>17</sup>

Among those who wanted a loan, the average amount requested was \$10,272. This amount, of course, is the “optimal” amount they would like to have and does not tell us whether they would accept a smaller amount if that was all that was available to them (see discussion of the actual loan sizes available in WBGS to the microenterprise sector in Chapter IV). Again, those from the West Bank were significantly different than those from Gaza, with the latter requesting less money. There was a tendency (but not significant) for women to ask for less money than men and for those without education to ask for less money than those who had schooling. People with formal businesses wanted larger loans than those in the informal sector.



USAID has identified the \$500 to \$10,000 range as being potentially underserved in the WBGS area. Looking at those who wanted loans, respondents asked for a low of \$200 to a high of \$70,000, but 72 percent were in the range of \$500 to \$10,000. The mean in the latter group was for a \$5,202 loan but the mode, the most frequently cited amount, was at the high end, for \$10,000, while the second largest group asked for \$5,000. Thus there is evidence that among those who want loans, the identified range is the one most sought after, particularly the middle to high end of this range.

Among those who wanted a loan, the most often-cited reason was to buy more or varied stock. But significant groups wanted to buy new business equipment or transport, or invest in a new production technology or improved shop facilities. Another smaller group simply cited the need for working capital. Table 9 below shows how people wished to use their loans:

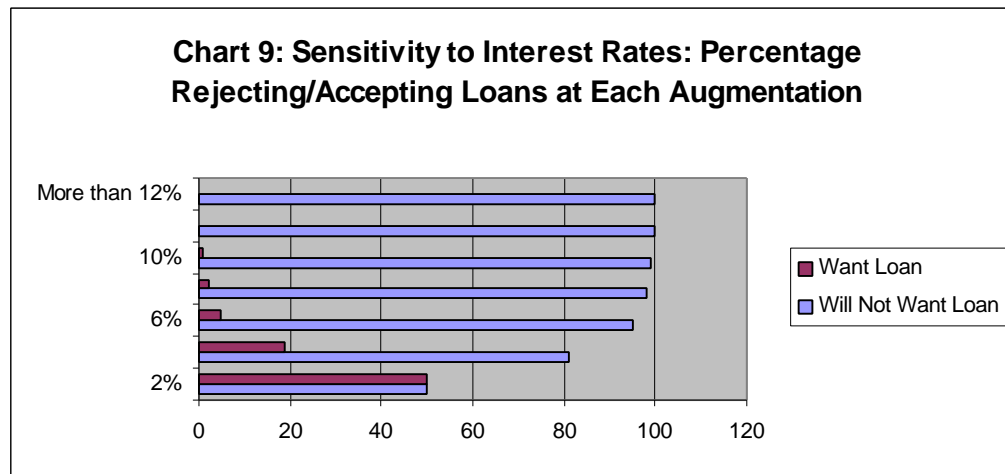
**Table 9: Use of Desired Loans (%)**

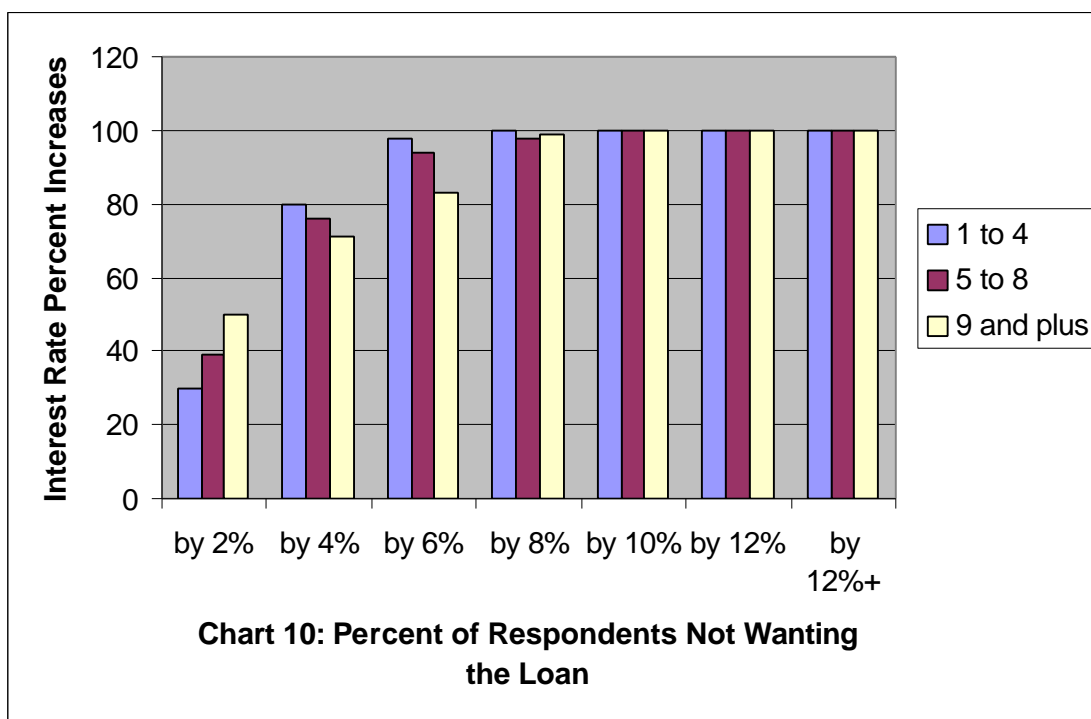
<b>Increase or Vary Stock</b>	33%
<b>New Business Equipment or Transport</b>	15%
<b>New Technology for Production</b>	13%
<b>Improved Shop Facilities</b>	12%
<b>Hire More Workers</b>	1%
<b>Retrain Self &amp; Workers</b>	2%
<b>Service Existing Debt</b>	5%
<b>Working Capital</b>	12%
<b>Family Consumption</b>	3%
<b>Other</b>	4%

Most respondents who wanted loans wanted them for long periods of time. Approximately a third said they would like to have a loan for more than three years, while close to the same number said they wanted a two- to three-year period. Only 24 percent wanted a loan for one to two years, and only 17 percent wanted a loan for a period of less than one year. Gaza respondents were more likely than those from the West Bank (and women were more likely than men) to request loans for shorter periods of time. Area of economic activity and education did not seem to affect the period of time a person designated as needed for the loan period.<sup>18</sup>

Respondents who wanted loans were asked what interest rate they expected to pay for those loans. The average rate expected was quite low: 5.6 percent. Most people fell in the 5 to 8 percent group. Almost no one expected to pay more than 10 percent. Respondents were then asked if the loan amount went up by 2 percent more than they had specified, would they want the loan. Additional 2 percent increments were added in the following questions until more than 12 percent additional was finally designated. Respondents were clearly sensitive to interest rates, and a saturation level was quickly reached after an addition of 4 percent. Few would take a loan when 8 percent was added, even fewer at 10 percent, and none at 12 percent. Not surprisingly, these figures are related to the acceptable level of interest respondents initially specified for a loan. Those who had higher interest rates initially accepted less of an increment. The sensitivity reported here indicates that respondents are quite able to calculate what the costs of borrowing would be to them, (although they probably did not clearly understand the difference between nominal and effective rates), and indicate what they think they can afford. However, it is worthwhile to reiterate that reported sensitivity does not always match behavior when a credit program directly targets the microenterprise sector and markets its products. Thus, in a current USAID-supported micro finance program administered by Chemonics and Massar Associates, 2,600 loans have been issued in the past 18 months at an effective annual interest rate of 30 percent, a much higher rate than the survey respondents said they would tolerate. The two perspectives—expressed demand and behavior—have to be balanced in a final analysis.

The sensitivity indicated here indicates that respondents are quite able to calculate what the costs of borrowing would be to them and how much interest they could afford although, again, the level they indicate is much lower than actual interest which microentrepreneurs will and do pay on actual formal loans in WBGS (see Chapter IV).





## Analysis and Conclusions

Analysis of the survey results suggests a number of conclusions about the possibilities of microfinance programs in the area, some of which may be surprising, given previous assumptions.

1. It has been pointed out in many previous studies that few business owners in the WBGS microenterprise sector have had loans from formal institutions. Our data support this conclusion indicating that only 3 percent had had a loan for the start-up of their business from a financial institution, bank, or NGO, while 68 percent relied on their own savings and 10 percent had had a loan from a family member. Nor was the traditional credit sector much more evident; again only 3 percent had loans from middlemen or money lenders as the principal source of funds for the start-up of their business. Very few people had received a loan after the business was started. Only 6 percent of the respondents had received any kind of formal loan. Credit, then, has not to date played an important role in the microenterprise sector in the West Bank and Gaza.
2. Given that so little credit has been available, it would seem perhaps evident that there would be a high demand for access to credit. In fact, in this sample, only 21 percent of the microentrepreneurs felt that lack of access to credit was a serious problem for the growth and development of their businesses. Similar proportions of the sample were concerned about the conditions for receiving a loan such as a high interest rate, high collateral, too much paperwork, or a ceiling on loan amounts. What people were concerned about instead were political factors such as Israeli border closures and the resultant market fluctuations.



3. Asked specifically if they would take a loan from any formal credit institutions, (bank, financial institution, or NGO), 60 percent said no.
4. The major reason given for not wanting a loan was that their religion was against their borrowing. Very few were concerned about the conditions for getting a loan such as required collateral, high interest, too much paperwork, and a ceiling on loan amounts.
5. Those who want formal loans are sensitive to interest rates. Their average expected rate is low, lower than most financial institutions charge, and their willingness to pay amounts above this rate cut off sharply after an addition of 4 percent. This, of course, does not clarify what a respondent offered a loan would actually do faced with a higher rate since existing loan programs in the microenterprise sector have compounded interest rates that are much higher than 16 percent.
6. Initial review of the above facts suggests that credit is not in a high expressed demand for credit, although an outside observer might well believe that most microenterprises would actually benefit from appropriate loans (tailored to business needs and ability to repay). However, the data shows some other factors which are extremely relevant to a study of demand for credit.
7. There are significant variations in the likelihood of various subgroups within the sample to believe credit is important, worry about the conditions for receiving a loan, and think that lack of credit is a serious constraint to their business. It appears that those who are the poorest, the most alienated politically, and the least educated are the most likely not to think credit is needed and not to want it. Those microentrepreneurs whose businesses are slightly more successful and more integrated into the formal business sector are more likely to value credit, to want credit, and worry about credit conditions. Although this is reverse to the probable need function, it is also understandable, especially in a society which has been under military control and subject to constant political upheavals and political insecurity.
8. Very few women are business proprietors and those who are tend to be better educated and more independent (because of widowhood or husband's illness) than women generally and then the average man in the microenterprise sector. Nonetheless, women are substantially more likely to have lesser profits in their businesses AND more likely than men to articulate a demand for a loan. Women proprietors are more likely than men to want a loan from a formal lending institution.
9. Farmers do not differ substantially from other sectors of economic activity in their attitudes towards or demand for credit.

## **ENDNOTES: Significant Relationships in Survey Data**

<sup>1</sup> Period when sales greatest (before '85, '86-'90, '91-'95, 1996, 1997, 1998 to present) and gender (male, female). Chi square = 30.411, Cramer's V = .243, p = .0001.

<sup>2</sup> Average sales per month (amount) and gender (male female). ANOVA: Mean diff. 1488.418, F. Test 8.76, p = .0032.

<sup>3</sup> Monthly profit (amount) and gender (male, female). ANOVA Mean Diff = 600.829, F test = 8.149, p = .0045. (Significant at 95%)

<sup>4</sup> Monthly Sales (amount) and Sector of Activity (Agriculture, Manufacturing, Trade and Service) ANOVA: Mean diff: 315.461, -169.34, 1041.324, -484.801, 725.863, F test = 2.439, p = .0639 (Significant at 95%)

<sup>5</sup> Net profit (amount) and gender (male, female) among those in trade. ANOVA: Mean difference 767.349, F test = 9.774, p = .0021 (significant at 95%).

<sup>6</sup> Amount of Start-up Loan and Region (West Bank, Gaza). ANOVA: Sum squares 768103064.916, F-test = 16.281, p = .0001 (significant at 95%). Later Loan Amount and Region. ANOVA: Sum Squares 357024697.683, F-test = 6.051, p = .0175 (significant at 95%).

<sup>7</sup> Registration of business (no, yes) and size of later loan. ANOVA: sum squares 226718045. F-test 3.638, p = .0626.

<sup>8</sup> Level of education (none, primary, secondary or above) and awareness of credit (not available, available, don't know). Chi square = 16.522, Cramer's V = .113, p = .0024.

<sup>9</sup> Access to credit (don't know or no credit) and size of profit margin. ANOVA: Sum squares 958532.551, F-test = 4.207, p = .0409

<sup>10</sup> Closures a serious constraint (very imp., Imp., Not Import.) and gender (male, female), Chi square = 72.228, Cramer's V = .328, p = .0001.

<sup>11</sup> Taxes a serious problem (Ver Imp., Imp. Not Imp.) and gender: Chi square = 22.559, Cramer's V = .184, p = .0001.

<sup>12</sup> Residence (rural, urban, refugee camp) and access to credit as constraint (very imp., imp., not imp.) Chi square = 13.519, Cramer's V = .107, p = .009.

Residence (rural, urban, refugee camp) and high interest rates for credit as constraint (very imp., imp., not imp.) Chi square = 32.461, Cramer's V = .174, p = .0001

Residence (rural, urban, refugee camp) and collateral for credit as constraint (very imp., imp., not imp.) Chi square = 18.9623, Cramer's V = .133, p = .0009

Residence (rural, urban, refugee camp) and ceiling on credit as constraint (very imp., imp., not imp.) Chi square = 12.038, Cramer's V = .108, p = .0171

Residence (rural, urban, refugee camp) and paperwork for credit as constraint (very imp., imp., not imp.) Chi square = 26.98, Cramer's V = .16, p = .0001

<sup>13</sup> Tax Paid (No, Yes) and Interest rates for Credit (very imp., Imp., Not Imp.). Chi square = 15.463, Cramer's V = .17, p = .0004

Tax Paid (No, Yes) and collateral (very imp., Imp., Not Imp.). Chi square = 6.917, Cramer's V = .113, p = .0315

<sup>14</sup> Access to Credit as a Constraint (very imp, imp. Not imp) and size of profit margin. ANOVA: Sum squares = 438583530.691, F-test = 3.338, p = .0365 (Significant at 95%)

Interest on Credit as a Constraint (very imp, imp. Not imp) and Size of Profit Margin. ANOVA: Sum squares 412695305.615, F-test = 6.138, p = .0024 (significant at 95%).

<sup>15</sup> Credit history (no start-up loan, start-up loan) and Access to Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 27.557, Cramer's V = .217, p = .0001.

Credit history (no start-up loan, start-up loan) and High Interest for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 29.374, Cramer's V = .233, p = .0001.

Credit history (no start-up loan, start-up loan) and Ceiling on Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 40.742, Cramer's V = .281, p = .0001.

Credit history (no start-up loan, start-up loan) and Paperwork for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 22.985, Cramer's V = .208, p = .0001.

Credit history (no start-up loan, start-up loan) and Collateral for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 25.917, Cramer's V = .219, p = .0001.

Credit history (no later loan, later loan) and Access to Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 27.758, Cramer's V = .221, p = .0001.

Credit history (no later loan, later loan) and High Interest for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 34.398, Cramer's V = .257, p = .0001.

Credit history (no later loan, later loan) and Ceiling on Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 44.828, Cramer's V = .3, p = .0001.

Credit history (no later loan, later loan) and Paperwork for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 32.891, Cramer's V = .254, p = .0001.

Credit history (no later loan, later loan) and Collateral for Credit as a Constraint (Very Imp., Imp., Not imp.). Chi square = 41.826, Cramer's V = .284, p = .0001.

<sup>16</sup> Region (WB, Gaza) and Demand for Loan (yes, no). Chi square = 7.23, Phi = .105, p = .0072

Gender (M, F) and Demand for Loan (Yes, no) Chi square = 3.736, phi = .075, p = .0533

Start-up Loan (Had not, Had) and Demand for Loan (Yes, No), Chi square = 17.483, phi = .163, p = .0001

Later Loan (Had Not, had) and Demand for Loan (Yes, No) Chi square = 13.058, Phi = .143, p = .0003

<sup>17</sup> Region (WB, G) and Reasons Not Want Loan (don't need, religious, loan conditions) chi sq = 38.225, Cramer's V = .317, p = .0001

Formal (Not registered, registered) and Reasons Not Want Loan (don't need, religious, loan conditions) chi sq = 7.196, Cramer's V = .137, p = .0274

<sup>18</sup> How Long a Loan Period and Region (West Bank, Gaza) Chi Square = 16.456, Cramer's V = .252, p = .0057.

How Long a Loan Period and Gender (M, F). Chi square = 25.374, Cramer's V = .313, p = .0001.

## **Chapter IV**

### **Supply Side Analysis of Microenterprise Credit**

#### **I. Background**

To have a more complete perspective of the present WBGs microenterprise credit situation, an analysis of the funding available to businesses was conducted. Several earlier assessments provided some information on the subject. The first assessment dated back to early 1996<sup>1</sup> and looked at the commercial banking sector and the microenterprise credit programs operated by a sample of the NGOs, UNRWA, and the informal sector (i.e., family, raw materials suppliers, money changers, and rotating savings and credit associations). At that time, the assessment authors determined that, outside of personal savings, remittances and family loans, and a handful of NGO programs, there was little credit available to microenterprises. A myriad of reasons were put forward as to why credit from the formal sector was limited, including factors such as borrowers not having sufficient or acceptable tangible collateral, the newness and instability of the banking sector, the economic and political situation, religious constraints concerning the charging of interest, and a general lack of experience by banks in these types of loans (i.e., little or no trained staff, systems, policies & procedures, etc.).

Since 1996, there have been approximately 65 commercial bank branches (including main offices) owned by 12 banks that were established in both the West Bank and Gaza Strip. As of July 1999, the number of banks had risen to 22 and the total number of branches reached 106, with several applications pending before the Palestine Monetary Authority. That represents an 83 percent growth in number of banks and a 63 percent growth in total bank branches.

The consultant also reviewed three studies conducted by Massar Associates, which is based in Al Bireh, West Bank.<sup>2</sup> The two microfinance studies only looked at two commercial banks that provide loans to small borrowers—the Arab Bank and the Bank of Jordan—as well as five NGOs,<sup>3</sup> the UNRWA program, and one lender under the Islamic Law (Murabaha) system—Beit Al Mal. The principal focus was on institutions with programs targeted specifically for microenterprises.

The third Massar report, “Commercial Credit Guide,” is a much broader document that briefly outlines the general parameters of 20 commercial banks’ loan programs (of which one did not provide any information), 6 “development” funds, and the IFC. Areas surveyed included: (client) Eligibility; Loan or Financing Size and Value; Cost of Loan or Financing (interest rates and commissions/fees); and Loan or Financing Term.

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<sup>1</sup> Stephen C. Silcox, Karl F. Jensen, Olaf E. Kula, Microenterprise Finance Sector Assessment of the West Bank and Gaza (Final Report), dated February 1996, prepared for the USAID West Bank and Gaza Mission under contract to Management Systems International.

<sup>2</sup> Massar Associates, Microfinance Base-Line Survey – Final Report (May 1998), prepared for Chemonics International.

Massar Associates, Microfinance Base-Line Survey, w/o date, prepared for The Commercial Bank of Palestine.

Massar Associates, Commercial Credit Guide, (December 1998), prepared for Ministry of Economy and Trade.

<sup>3</sup> Palestine Development Fund, YMCA, Save the Children, CARE and ANERA.

## **A. Methodology Applied**

The first step in the process of completing an analysis of the supply of credit for microenterprises was to gather and review existing sector studies and assessments. From that information, the consultant compiled lists of banks, development funds, and NGOs. Massar Associates then contacted those banks and institutions that might offer any kind of loans to microenterprises or small businesses. If their response was affirmative, meetings were arranged with a key person in the organization who could provide information on their programs and the terms and conditions offered.

The consultant prepared a three-page survey questionnaire to standardize the questions asked of each entity during a personal interview. The questions were much more comprehensive than what was done in the prior studies, due in great part to the nature of the broader nature of this scope of work. Besides updating information gathered in prior studies, the financial institution was queried on: the number and amounts of microenterprise loans outstanding; to whom; gender breakdown; delinquency experience; write-offs; refinancing policy; source of funds used for the loans; loan rejections, with associated reasons for rejection; future plans for microenterprise lending; and, in the case of banks, the interest rates that they pay on savings deposits.<sup>4</sup>

Due to the SOW time constraints, instead of a complete survey of all of providers of microenterprise or small business credit in the market, the consultant used a representative sample. He interviewed the 8 largest commercial banks (36 percent of all chartered banks in Palestine), along with 10 leading NGOs<sup>5</sup> and donor programs in the microenterprise sector. The 14 commercial banks not interviewed include those that do not make microenterprise or small business loans, have one or just a few offices, or base their credit on the Moslem religious laws.

After interviewing two suppliers of raw materials who sell on credit to microenterprises, it became apparent that additional interviews would not be necessary for several reasons. First, the suppliers do not maintain data on the amount of credit offered to this sector. Second, they have very informal credit procedures. Third, there was no difference between the price to cash clients versus the cost of the merchandise to those who purchased on credit. Furthermore, they do not charge any interest, commissions, fees, or late payment penalties, and no collateral was required. There was also some reservation on the part of the individuals interviewed about providing much information to strangers.

The main reason why the credit terms were so liberal was because of the competition. The suppliers feared that if they did not accept credit sales, they would lose the customer to their competitors, and there is no lack of stores selling all types of merchandise used by microenterprises. Their profit margins appear to be very narrow.

Attempts were made to interview a sample of the moneychangers, but the major ones contacted by telephone indicated that they did not provide credit and, therefore, an interview would be

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<sup>4</sup> A copy of the "Supply Side Assessment of M/E Credit" questionnaire form is included in the annex.

<sup>5</sup> A complete list of NGOs operating in Palestine was not available. Therefore, we can only estimate that the number of NGOs interviewed represent at least 80% of all NGOs having microenterprise lending programs, as their names were provided by sources knowledgeable in this sector.

meaningless. Consequently, only assumptions can be made about the amount of their involvement, based solely on the responses of the microenterprises participating in the Demand Survey.

Regarding the information provided by the respondents, it should be noted that the people interviewed did not always have precise data or specific answers. Many responses were best guesses or estimates either because they did not have the information at hand or because their institution did not maintain it. Nevertheless, it is felt that the survey results do provide a fairly good indication of the situation as it currently exists in the WBGs.

Another difficulty encountered was the lack of a clear single definition of a microenterprise and the amount or range of a loan to the microenterprise sector. Different institutions and individuals had different understandings of the definition of microenterprises. Some responses received used a criterion of nine or fewer employees. Others spoke in terms of asset size of the business or loan size that they made available to that sector. For purposes of the survey, a definition of 10 or fewer employees (including the owner and family members) was used, regardless of the amount of credit needed. In setting this definition, however, those institutions that used a different definition for their financial reporting had to convert their existing data, or, as was more frequently done, make estimates.

One reason given to the banks, NGOs, and others contacted as to why loan size or amount of financing needed by the microenterprise should not be considered as a criterion, was the relatively high cost of equipment in the WBGs. As stated, the WBGs have to import nearly everything it consumes, the majority of which comes from Israel. Therefore, the final costs to the micro entrepreneur are high, particularly for machinery and equipment. If land or buildings are needed, they too are expensive. As a result, organizations like the YMCA that finance equipment have a much higher average loan size and maximum loan amount because of the high equipment costs, while agricultural production credit or credit to hairdressers, seamstresses/tailors, grocery stores, and the like are much smaller.

## **B. Scope Of Work**

The objective of this survey was to look at the:

- Amount of money available to the sector from the various known sources (i.e., commercial banks, NGOs, United Nations agencies, suppliers and money changers);
- Economic sectors that are the recipients of the money (i.e., manufacturing/light industry, trade/commerce, services, or agriculture);
- Loan sizes that may be obtained; and
- If there are ranges of loan sizes or gaps in the size range of loan funds that no one is addressing.

A profile of the commercial banks, NGOs, UN Agencies, and other sources was developed that would show their microenterprise lending operations, including, among other areas:

- Target market and location;
- Number of borrowers, loans outstanding, and average loan size;
- Identification of donor support and conditions of donor-sponsored programs;
- Characteristics of loan product;
- Future lending plans; and,
- Constraints to portfolio expansion.

Other questions to be addressed were:

- What type of clients has what type of credit history?
- What type of security do the clients provide?
- How long does it take to obtain a loan?
- What is the purpose of the loan?
- How much credit can clients productively use and fully repay?

### **C. Survey Results**

The survey data was obtained through personal interviews with the 8 commercial banks, 9 NGOs, UNRWA, and 2 raw materials suppliers from July 12 through July 22, 1999, concerning their involvement with microenterprises. To maintain a level of confidentiality concerning the sensitive data received from the organizations, each category below will be broken down only into three groups. The commercial banks will comprise one group, and the second will combine the UNRWA with the nine NGOs. The “Suppliers of Raw Materials” are kept separate and, since data are not available from them in all areas analyzed, will only be addressed when responses were available. [A list of the 20 organizations visited and persons contacted is contained in the annex.]

The consultant also interviewed the Chemonics Representative in Ramallah and an IFC representative (consultant) in Washington, D.C., to assess the broader picture from those entities’ point of view.

Of the 8 commercial banks interviewed, only 7 are involved with microenterprise credit. As a result, to determine the average amount of funding available to microenterprises provided by the banks, the total amounts reported in the “Banks” section of the following tables should be divided by 7 and not 8, where appropriate.

The Cairo Amman Bank was the only bank that did not have microenterprise credit. Nevertheless, it was included in the survey because it has the most branches of any bank in Palestine, and it was important to determine what its future plans might be in that regard. Based on the information obtained, the bank would like to become involved with a donor program and receive technical assistance in how to set up and manage a microenterprise-lending department.

## 1. Target Market and Location

This section analyzes the target market microenterprise sectors of the two major groupings, including the geographic areas of WBGS where they provide their products and/or services. Table 1 shows the total reported amount of funding available for microenterprises by source or organization. The institutions do not generally allocate a specific amount of their resources to any one sector, unless their mission is only focused in one area for development. Similarly, not all the institutions lend to every sector. For that reason, the total number of lenders does not equal 20 in each quadrant of the Table.

**Table 1: Available Funding for Microenterprise Sectors by Institutions Surveyed**

Source/Organization	Total Funds Available (\$000)	Number of Institutions / Sector			
		Mfg. & Light Industry	Trade / Commerce	Services	Agriculture
Banks	\$57,400	6	6	6	4
NGOs & UNRWA	\$20,700	8	7	9	9
Suppliers	N/A	2	0	2	0
<b>TOTAL</b>	<b>\$78,100</b>	<b>16</b>	<b>13</b>	<b>17</b>	<b>13</b>

Although Table 1 shows 13 institutions surveyed that are involved in the agricultural sector, it includes UNRWA because of its “Small Scale Enterprise” (SSE) program that provides agricultural credit. However, UNRWA’s Micro Enterprise Credit (MEC) program does not provide funds for agriculture.

The actual amount of available funds is significantly greater than the amount shown above (\$78.1M), however, for several reasons. First, one of the seven banks stated that it has an unlimited amount of money,<sup>6</sup> and second, there may be other banks that were not included in the survey but do lend to this sector, particularly those that follow Moslem religious laws. An exact or approximate amount of funds in these institutions dedicated to microenterprise loans cannot be determined in the short timeframe available for this survey. Third, one of the NGOs reported that it expected to increase the amount of its available funds from \$3 million to \$5 million by the year 2002. In addition, there may be other NGOs providing some limited funding to these four sectors that we were not aware of. Nevertheless, their numbers would be extremely small. Lastly, family members and friends provide some credit, but these amounts could not be determined.

Supplier credit appears to play a lesser role, but nonetheless an important one to those microenterprises that are unable to access the formal sector. Also, if it is true that the moneychangers do provide credit, albeit on a limited basis and only to known borrowers, those amounts add up. One could safely say that the amount of money available to the microenterprise sector exceeds \$85million when all banks, NGOs, raw materials suppliers, moneychangers, and families/friends are included.

<sup>6</sup> The bank’s only limit on funds available to the microenterprise sector would be the amount of its loanable deposits and capital not used to finance other types of loans.



Table 2, below, uses the same data as the Table 1, but by geographic location—either the West Bank or the Gaza Strip. (The information from the raw materials suppliers is not included since there were only two in the survey, both were in the West Bank, and they did not always know what sector their buyers were in. This does not affect the data analysis.)

**Table 2: Amount and Type of Microenterprise Credit Available for WBGS  
By Number of Institutions Surveyed**

Source / Organization	Total Funds Available (\$000)	No. of Institutions by Area and by Sector							
		WEST BANK				GAZA STRIP			
		Mfg. Ind.	Tr./ Com.	Serv.	Agri.	Mfg. Ind.	Tr./ Com.	Serv.	Agri.
Banks	\$57,400	6	6	6	3	3	3	3	2
NGOs & UNRWA	\$20,700	8	7	9	8	8	7	9	8
<b>TOTAL</b>	<b>\$78,100</b>	<b>14</b>	<b>13</b>	<b>15</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>12</b>	<b>10</b>

It is interesting to observe that there are almost twice as many banks offering microenterprise credit in the West Bank as there are in the Gaza Strip, while the NGOs are heavily involved in both areas. The distribution of loan funds available to each area could not be generated from the survey data because most institutions did not make such an allocation of their resources.

## 2. Number of Borrowers, Loans Outstanding, and Average Loan Size

Examining data on the surveyed institutions' current loan portfolios, Table 3 presents the amount of microenterprise loans currently outstanding, the number of loans outstanding, the number of women borrowers, and the estimated highest amount of loans outstanding up to the time of the study.

Table 3 has three principal groupings—commercial banks, NGOs and UNRWA, and raw materials suppliers. Of the 8 banks, only the Cairo Amman Bank does not have any microenterprise loans. Also, one of the NGOs interviewed does not currently have any loans to the microenterprise sector, but plans to enter the market before the end of 1999. The difference between the number of loans outstanding and the number of women borrowers equals the number of male borrowers.

**Table 3: Analysis of Microenterprise Loans Outstanding**

Source / Organization	Current Amount Outstanding (\$000)	Number of Loans Outstanding (O/S)	Women Borrowers		Highest Amount O/S (\$000)
			Number	Percent	
Banks	\$31,172	12,512	2,078	17%	\$32,721
NGOs & UNRWA	\$9,894	7,685	5,365	70%	\$13,191
Suppliers	N/A	295	0	0	N/A
<b>TOTAL</b>	<b>\$41,066</b>	<b>20,492</b>	<b>7,443</b>	<b>36%</b>	<b>\$45,912</b>

An important fact to note is that the banks have made loans to women, but not to the extent that the NGOs and UNRWA do. The NGOs and UNRWA are lending to more than twice as many women as the banks (5,365 vs. 2,078), even though they have fewer total loans outstanding (7,685 vs. 12,512). Based on the information provided by the bank staff interviewed, they will continue to increase their exposure to women, as long as the women meet the institution's credit criteria.

The raw materials suppliers are sensitive about providing information about their sales volume and amount of credit outstanding, and this is understandable given the business environment. At the same time, from observing their businesses during the interviews, the level of accounting and formal record keeping systems may be deficient. Everything was done manually, using notebooks and pieces of paper. Credit volume is not an important issue for them compared to sales and inventory volume. They could probably estimate the current amount of credit outstanding, but any historical data such as highest amount outstanding since they were in business, or even over the past few years might be more suspect.

a.) Loan Sizes and Terms

Table 4, below, expands on the prior table by providing information on loan sizes, average loan, loan terms, and grace periods usually offered.

**Table 4: Range for Loan Principal and Terms**

Source / Organization	Minimum Loan Size Range (US\$)	Maximum Loan Size Range (US\$)	Average Loan Size (US\$)	Range of Loan Terms (in mos.)	Average Term (in mos.)	Grace Period (in mos.)
Banks	500 to 5K	10K– 50K	8,872	4 - 60	19	1 – 6
NGOs & UNRWA	212 to 10K	1.1K to 90K	7,840	0.5 – 120	21	1 – 24
Suppliers	N/A	N/A	100	0.25 - 4	3	N/A
Aggregate Totals	212 to 10K	1.1K to 90K	7,810	0.25 - 120	18 (wtd)	1 – 24

NOTE: “wtd” = weighted average. “K” = thousand (US\$‘000).

Of the 7 banks with microenterprise loans, one stated that it had no real minimum or maximum **loan amount**. They could handle any size loan, depending on the nature of the project to be financed.

The NGOs and UNRWA group of 10 organizations includes one NGO that plans to re-enter the microenterprise lending business by year end 1999. It has no microenterprise loans at this time and therefore has neither an "Average Loan Size" nor an "Average Term." Nevertheless, its data on amounts available to lend are incorporated into the tables. Two NGOs do not offer any grace period, while a third based its grace period on a cash flow analysis.

The raw materials suppliers do not have any specific lending criteria. If the client is known, terms can be arranged based on the purchase amount. Nevertheless, the suppliers indicated that they attempt to get as much cash as possible up front and finance the balance. Even though this credit source may help some microenterprises that don't have access to loans from banks or NGOs / UNRWA, it is not "cash flow"-based lending. That is, the repayment terms are not a function of the microenterprise's business cycle, (the period that it takes for the raw materials to be converted to finished goods and sales revenue generated). That may be why, in light of the comments made by the two raw materials suppliers in the interviews, many clients do not pay in the agreed-upon time.

On a consolidated basis, the data in Table 4 show that even the commercial banks extend credit in amounts as low as \$500.00, with \$1,000.00 being the mode. This compares very favorably with the NGOs that, in one instance, lend as little as \$212. The more frequent minimum reported was \$500.00. On the high end, microenterprises can obtain amounts of \$30,000.00 and more in a few instances (for equipment, land and buildings acquisitions, etc., of a long-term nature), as long as they meet the institution's lending criteria.

The NGO / UNRWA average loan size data (\$7,840.00) are somewhat skewed to the high side because of one organization with a high average. When that entity is excluded, the average-size loan of the remaining 8 organizations drops by over 50 percent to \$3,595.00. This is substantially lower than the average loan size for the 7 commercial banks of \$8,872.00 and highlights several differences between these two groups of lenders. First, the banks are presently concentrated primarily in the West Bank and in the larger urban areas, where the minimum and maximum loan demands are somewhat higher. The NGOs and UNRWA have a broader client base covering both the West Bank and Gaza, with more rural exposure. They also appear to have slightly less stringent criteria for client selection.

The **average term** of loans provided by the different lending groups is very similar. Regarding the "Range of Loan Terms," one bank reported that its minimum term was 8 months, but that the maximum term was a function of the feasibility study of the project to be financed. The range for commercial banks was from 6 months to a maximum of 24 months. Their average was 19 months. The NGOs and UNRWA extended credit from 6 months to a maximum of 54 months, by one organization. Their combined average was 21 months.

There was a larger disparity between the banks and NGOs concerning **grace periods**. Most banks would allow a modest grace period of from one to a maximum of six months. One bank

said that it did not offer a grace period, while another will allow one based on the feasibility study results. The NGOs and UNRWA are more generous, offering grace periods from one to a maximum of 24 months, with 6 months being the most common.

The raw materials suppliers do not provide a grace period as such, as it is basically part of the total terms of sale. In other words, if a portion of the sale is on account, any grace period is already factored into the due date for the final payment. In reality, many clients tend to exceed the established due date and all that the supplier can do is allow them additional time to pay up.

b.) Loan Repayment and Delinquency Rates

During the interviews, the consultant collected data from the respondents concerning their organizations' repayment experience with microenterprise loans and delinquency rates. The information was further disaggregated by gender to determine if there was any correlation between delinquency and gender, or conversely between the likelihood of repayment and gender. Do men have a higher incidence of late payments or loans written off compared to women? A summary of the results is shown in Table 5, below.

A factor to consider when analyzing the results is that there did not appear to be any consistent or standard criteria on the part of any of the organizations surveyed as to how they classified a loan as delinquent. Some would use 30 days, while a few others mentioned periods of up to two months. A second factor is that the majority of the microenterprise loan programs are relatively new, starting up within the past year to 18 months. Therefore, a significant portion of the loan portfolios has not yet reached maturity. As a result, there has not been time for many of the loans to come due. Finally, over half of the institutions permit delinquent loans to be refinanced if there is a justifiable reason why the borrower cannot pay. To qualify for a refinancing, the borrower must be willing to pay the debt under the new payment schedule.

**Table 5: Loan Repayment Rates and Delinquency**

Source / Organization	Number of Loans Delinq.	Amount Delinquent (US\$)		Repayment Rate	Amount of Write-offs (US\$)		Are Delinquent Loans Refinanced?
		Men	Women		Men	Women	
Banks	591	\$1,134,269	0	96.3%	0	0	4 = Yes
Percent (%)	4.7%	3.6%	0%		0%	0%	57.1%
NGOs & UNRWA	119	\$350,200	\$63,134	95.8%	0	\$3,500	5 = Yes
Percent (%)	1.5%	3.5%	0.6%		0%	0.04%	55.6%
<b>TOTAL</b>	<b>710</b>	<b>\$1,484,469</b>	<b>\$63,134</b>	<b>96.2%</b>	<b>0</b>	<b>\$3,500</b>	<b>9 = Yes</b>
<b>AVG. (%)</b>	<b>3.5%</b>	<b>3.6%</b>	<b>0.15%</b>		<b>0%</b>	<b>0.01%</b>	<b>56%</b>

NOTE: Current and Total Outstandings, and Number of Loans Outstanding are from Table 3.

The commercial banks and other organizations in the survey are experiencing similar rates of delinquent loans, with the commercial banks being slightly higher at 4.7 percent, as compared to the NGOs and UNRWA at 1.5 percent. The difference may be the point at which a loan is

classified as delinquent. Commercial banks are more stringent (around 30 days as the base), while the NGOs / UNRWA tend towards a two-month allowance.

When the delinquency data are disaggregated by gender, the men have the worst performance, being mindful of the fact that men represent 83 percent of the 12,512 current bank microenterprise borrowers, but only 30 percent of the 7,685 NGO / UNRWA clients. Combining the banks with the NGOs and UNRWA, male borrowers represent 64 percent of all borrowers. The rationale stated by those interviewed, as to why men are greater risks, is that the women are fearful of losing everything they own if they fail to pay on time. Women are even more fearful of being incarcerated. Reportedly, they would borrow from family, relatives, or friends, if necessary, to avoid becoming delinquent.

As of the survey date, the banks did not report any delinquent loans with women, while there were some delinquent women clients of the NGO / UNRWA group. The amounts, though, are extremely small, and caused by extreme circumstances such as a death in the families, some natural disasters, or other unforeseen events. Nevertheless, the institutions went on to state that arrangements were made to reschedule the debts, and the past due amounts are being paid down.

All in all, the average repayment rate is approximately 96.2 percent, an impressive rate for the 16 organizations that reported the data. On an individual organization basis, the range of repayment rates ran from a low of 60 percent, to one of 75 percent, and one of 85.5 percent. The majority of the repayment rates were around 99 percent.

To date, only one NGO reported that it had to write off a loan, and that was to a woman. The amount was below one-tenth of one percent of the total NGO / UNRWA portfolio. There were no other write-offs reported.

### 3. Donor Support and Donor-Sponsored Programs

Examining the sources of funds available to the institutions, the survey examined if the funds were from their own resources or outside donors and the distribution of their influence in the two geographic areas vis-à-vis the number of branches and offices that operate the programs. The raw materials suppliers are not included here because they do not operate with donor funding and are generally independently owned and operated, single location stores. However, these kinds of establishments may be found throughout the WBGS, and, in fact, many probably qualify as microenterprises themselves.

**Table 6: Analysis of Branches/Offices and Funding Source**

Source / Organization	No. of Branches/Offices		Funding Source (US\$000)	
	West Bank	Gaza Strip	Own Funds	Donor Funds
Banks	35	15	\$42,900	\$14,500
NGOs & UNRWA	29	13	\$4,100	\$16,582
<b>TOTAL</b>	<b>64</b>	<b>28</b>	<b>\$47,000</b>	<b>\$31,082</b>

- NOTES: 1. Bank branches include the institution's headquarters or main office.  
 2. Several NGOs use a commercial bank to make loans, backed by a savings deposit.

As can be observed from the data in Table 6, there are **more bank branches and NGO / UNRWA offices in the West Bank than in the Gaza Strip**. This may be because the West Bank is substantially larger in geographic area, in addition to the fact that the Gaza Strip is primarily agricultural. It must be mentioned, however, that not all of the commercial bank presently offering microenterprise or "small business" loan programs do so from all of their branches. Most have designated offices with trained staff for this type of credit. The branches do offer checking and savings accounts, in addition to the other bank services. All NGOs and UNRWA offices are equipped and provide their complete package of microenterprise services at each location.

Four of the commercial banks surveyed not only lend their own funds but also manage donor funds and act as pass-through entities for several NGOs' loan programs. These four banks realized that lending to microenterprises was profitable and the risk could be controlled with the use of proper systems and procedures (learned from the donors). Consequently, they have approximately \$42.9 million (75%) available for microenterprise lending, while managing another \$14.5 million of donor monies (25%).

The NGOs / UNRWA have more limited resources and depend primarily on outside donors for their funding. Of the \$20.7 million that they have gathered, only 20 percent comprised their own money, while 80 percent emanates from outside donors.

#### 4. Characteristics of Loan Product

In addition to the details presented above<sup>7</sup> on the loan portfolios of the three principal groups that are being analyzed, there were other loan product characteristics that were identified from the information provided by the commercial banks, NGOs, and UNRWA. These include:

##### a.) Types of Security / Collateral that Microenterprise Clients Provide

Six of the seven commercial banks required some type of collateral to support their loans. All required personal guarantees. In addition, three required that the borrower have his/her salary deposited in the bank by the employer. Three banks required a mortgage on land or buildings,

<sup>7</sup> That is, the microenterprise sectors that are clients, the principal geographic areas targeted, the number of women borrowers, the loan sizes and ranges, the average and minimum/maximum terms, and repayment rates.

while two took a lien on tangible fixed assets of the business. One institution required that the borrower submit a post-dated check for the loan amount.

On the other hand, the NGOs / UNRWA were more lenient. Only four of the nine organizations with microenterprise programs used some form of security. The most common requirement was for personal guarantors by three NGOs, while two asked for post-dated checks. In a few instances where a group was involved, joint and several guarantees from all group members were required. Only one organization took a lien on machinery and equipment. Interestingly, three organizations did not require any type of security or collateral. It was further learned that small farmers were the group least likely to have any collateral, outside of the possible title to their land.

b.) Purpose of the Loans

In terms of the loan purpose, all organizations appeared to be fairly consistent. Unless it was a loan to be repaid from future wage deductions, all respondents said that they receive clear statements of purpose from the clients as to why they were requesting a loan. Every bank and the NGOs / UNRWA provided loans to finance the purchase of inventory. The second most common purpose was to finance the acquisition of fixed assets. Other areas that were financed, albeit infrequently, included “other expenses” and salaries.

c.) Interest Rates Charged

Here again, it was noted from the data that there was little difference between the interest rates charged by the commercial banks and those charged by the NGOs / UNRWA. All banks had loans in U.S. dollars, and three also had loans denominated in Jordanian Dinars (JD) and New Israeli Shekels (NIS). The nominal interest rates on dollars ranged from a low of 8 percent fixed per annum to a high of 20 percent. For dinars, the range went from 9 percent to 24 percent per annum (2% per month). Because of the risk of devaluation of the shekel, the rates charged on that currency ranged from 17 percent to 30 percent per annum.

Just over half of the NGOs / UNRWA made loans in U.S. dollars, while just under half used the Jordanian Dinar as their currency. Only one organization made loans in all three currencies. The range of rates in dollars ran from a low of 6.15 percent fixed per annum, to a high of 24 percent (2% per month). For dinars, the lowest rate was 5 percent per annum. The highest rate was 24 percent (2% per month).

The effective interest rates for both the banks and NGO / UNRWA loans are probably much higher in many cases, depending on how they made the calculations. Some institutions applied the rate to the outstanding balance, while a few charged the rate on the total amount of the original loan each month until paid. Another method observed was to calculate the total interest that the borrower would have to pay to maturity, add that amount to the original principal, then divide that total by the number of payments to arrive at a level payment plan. It must be pointed out that there was a lot of creativity and variety in the way rates were calculated and charged to the borrowers, and they should be advised to compare rates when they have access to several different lenders.

Although several institutions stated that their rates were variable—based on some percentage over Libor—none actually adjusted the rates during the life of the loan. The rates tended to be fixed at the time of disbursement, based on the Libor for that day, unless there was a substantial change in Libor. If that happened, they said that they would adjust the rate accordingly. The majority of the banks and NGOs collected the interest monthly, along with any principal payment. One bank collected it at loan maturity, while two NGOs collected their interest up front.

d.) Commissions / Fees Charged

Besides the interest charged on the loans, nearly all banks also charged commissions or fees. These commissions or fees were in addition to the 0.4 percent Stamp Duty required by the Palestinian government. They ranged from \$30.00 up to 2.5 percent of the loan amount and are collected up front.

Four of the nine NGOs / UNRWA assessed a commission or fee on the loans of their microenterprise borrowers. It was one percent, flat, up front on dollar loans. For the dinar loans, the rates varied. The low was JD3.00 to JD5.00 per loan to a high of one percent, flat. The only organization to lend in Shekels charged 1.5 percent, flat.

When the interest and commissions / fees are combined, and when some commissions or fees are collected up front, the effective cost to the borrowers becomes extremely high in some cases.

e.) Interest Rates Paid / Cost of Funds

Interest rates that the seven commercial banks paid on their savings and time deposits varied slightly from institution to institution. For U.S. dollars, the range was from a low of 4 percent per annum to a high of 6 percent. For the Jordanian Dinar, it ran from a low of 4 percent per annum to a high of 8.5 percent. The New Israeli Shekel rates were from a low of 9 percent to a high of 13 percent. The lower rates paid tended to correspond to passbook type savings accounts and lower amounts. Higher rates tended to be paid on larger amounts and longer terms (time deposits). The higher minimum and maximum rates paid on the NIS reflected the greater volatility of that currency to devaluation versus the other two.

Since a large portion of the banks' funds come from savings and time deposits, the rates that they have to pay are a good barometer as to the minimum interest rates that they will have to charge on their loans. Since their costs, in dollars, are at least 4 percent per annum, and probably compounded either monthly or quarterly, once they add to that their average operating costs, a nominal profit margin, and the effect of their reserve requirements, the minimum loan rate has to be at least 6 percent for a very efficient organization.

5. Future Lending Plans

The raw materials suppliers is the easiest group to classify regarding its future plans in the microenterprise credit arena. Because of severe competition in the market, they have little choice



but to offer some form of credit to maintain their customer base. They will sell as much as they can for cash, and finance the difference when the client requests.

The NGOs want to continue to provide financing to the microenterprises, but will need other funding sources to increase their involvement. Since it was not an objective of this study to assess the sustainability of the NGOs, we cannot say whether they need ongoing donations or grants to cover their operating funds or if they can operate their programs with the revenues generated from their loan portfolios. Regardless, as a group, their intention is to remain involved in this sector until there is no longer a need for their services.

The commercial banks present a different scenario. Several have heard about the success of the banks that are receiving donor-funded assistance to establish programs within their institutions, and want to either enter a similar program or independently allocate nominal amounts of their resources to experiment with these types of loans.

The banks that are currently working under the various donor-sponsored programs have found the process to be both profitable and successful. They stated that they are interested in, and willing to commit more of their available cash to expand their involvement in this sector.

Of the remaining financial institutions that have small business type loans or loans to small farmers, they too will maintain or increase their exposure as cash resources permit. One NGO has applied to the PMA to obtain a bank charter and expects to dedicate approximately \$5 million for microenterprise and small business credit. Another large financial intermediary is now very interested in microenterprise credit and would accept any technical assistance that a donor would offer to help them establish a microenterprise loan department.

## 6. Constraints to Portfolio Expansion

For the commercial banks with microenterprise or small business loan programs, they have very few constraints to expanding their portfolios. Their key problems are:

- Not being able to find enough creditworthy borrowers,
- Lack of a wide branch network to capture new markets, and
- Lack of sufficient numbers of staff trained in microenterprise lending.

Several banks also need to change their internal policies to permit delegation of credit approval authority based on the size of the loan requests. Presently, the majority of the banks use a centralized credit committee system; this tends to impede the flexibility and agility required of an efficient microenterprise program.

The NGOs' primary constraint is the lack of funds to meet their demand. With more funds, they would need to hire additional staff to handle the increased volume. A further constraint is the level of competition in certain key areas of the West Bank, such as Ramallah and Nablus, and in the Gaza Strip. There are too many organizations vying for a limited number of clients. This further exacerbates the problem, as the NGOs and other microenterprise lenders are assisting new microentrepreneurs to enter the markets, thereby increasing competition within various

service and trade sectors and reducing growth potential. They must look to new locations in the West Bank and parts of Gaza to expand their loan portfolios. An additional constraint for the NGOs is their lack of a sophisticated management information system (MIS) and loan portfolio control software to be able to adequately track the loan volume, calculate accrued interest and fees, and provide the necessary reports to management.

## 7. Other Information Obtained from Interviews

To better understand the real situation of microenterprise credit in the WBGs, other questions were asked of the lending organizations participating in the survey. The following is a summary of the more relevant areas that will help in the analysis of this sector.

### a.) Clients' Credit History

All but one of the commercial banks considered the borrower's credit history in determining whether to approve a loan application. Of the nine NGOs / UNRWA, six took the borrower's credit history into account when deciding whether to approve or reject the loan application. This is a key factor for lenders in the USA and other countries and should be done as a matter of course in Palestine as well.

### b.) Length of Time Taken to Approve a Loan

In general, the commercial banks took from one day to up to 28 days to review and decide on a loan application. Longer times were taken if documentation was missing and/or if a full credit committee consisting of members of the board of directors had to meet. Once the file was complete and all required information obtained, decisions were shortened to about 7 to 10 days.

This timeframe is better than the NGOs / UNRWA, which averaged from one week to 2 months. Two to four weeks was the most common period, although one organization mentioned that its approval process could take as long as one year until all of the documentation, studies, and approvals are obtained. The raw materials suppliers, by the very nature of their business, were the fastest because oftentimes they could not expect the client to have to come back another day to receive the merchandise.

### c.) Loan Approval

Only one bank appeared to have a "semi-decentralized" approval system, with the approval based on the loan size being requested. All others use a formal, centralized credit committee structure. The committees could be comprised of senior bank management, members of the boards of directors, advisors, or even outside professionals.

The loan approval process for NGOs and UNRWA was varied: four have a centralized credit committee, two a local credit committee, one uses its regional management, and one uses its group members to review and approve loan requests of other members. Several banks mentioned that the centralized credit committee system hinders their efficiency and would like to see their organizations move towards a system where loans are reviewed and approved at various internal

levels, based on the amounts being requested. For example, small-sized loans could be approved at the branch level; larger ones above the maximum branch level would be approved at the regional level, and the significant ones above the regional level's limit would pass to the head office or bank credit committee.

d.) Criteria for Loan Approval

Most of the banks (5 out of 7) stated that they based their loan approval primarily on the project's cash flow, and secondarily, on the tangible collateral and personal guarantees offered. That is, even though they usually require personal guarantors and some form of tangible collateral if available, if there is not a sufficient cash flow to demonstrate a capacity to repay both the principal and interest/fees, the loan application will not be approved.

The NGOs and UNRWA responses were more varied. Cash flow was the primary determinant for three of them, plus one other organization that used both cash flow and collateral. Of the remaining organizations, two looked at the project itself, one at the collateral, one at the clients' repayment history, and one at market research.

Certainly, those organizations that place primary emphasis on the borrowers' projected cash flow (based on a business plan or feasibility study) stand the best chance of recovering the loan, as long as they conduct a thorough and conservative project analysis.

e.) Amount of Credit Clients can Productively Use and Fully Repay

As mentioned above, the key determinant for the amount of credit that the bank approves is the project's feasibility study or business plan, along with a cash flow projection. If the project or business is not viable and the numbers don't demonstrate a capacity to repay, the loan request will be denied. Had more than the one NGO responded that their approval was based on the collateral provided, it could be assumed that more loans could be approved for amounts that the borrower could not realistically repay. Fortunately, this was not the case.

For the lack of a more detailed analysis of the loans actually approved, and in light of the relatively low delinquency record of the banks and NGOs / UNRWA surveyed, it would appear that loans are not being granted for amounts that exceed the borrowers' capacity to fully repay. In fact, it may very well be the case that the microentrepreneurs are not receiving enough of a loan to cover their projected costs. This is because of the commissions and fees deducted up front from the initial disbursement. Therefore, if the lender does not increase the amount approved to compensate for these payments, the borrower will have a shortfall and have to seek other sources.

f.) Computerized or Manual Loan Control Systems

All commercial banks managed their loan portfolios on their computer systems, using software designed specifically for their needs. With the exception of one NGO that used a manual system, all others were similarly computerized. Whether or not the software used was adequate for their

needs was beyond the scope of this study. Suffice it to say that the mere fact that they use automated systems is a plus.

g.) Loan Monitoring and Supervision Structure

Only one bank did not have a formal loan monitoring and supervision system in place. Loan officers at the other banks made at least one visit per year or per loan to each borrower to see how they were performing. Each of the NGOs and UNRWA likewise maintained some level of field supervision and monitoring of their loan portfolios as part of their service to their customer base.

h.) Number of Microenterprise Borrowers per Loan Officer

Almost half of the bank personnel interviewed did not know how many accounts their loan officers managed. The four banks that did have an idea mentioned numbers that ran from a low of 26 clients to a high of 60 per loan officer.

Four of the NGO / UNRWA group did not know how many loans each field loan officer managed, as it was not an area that they tracked. Of the remaining five organizations, two had an average of 200 clients per loan officer, while the other three ranged from a low of 10 to 15 to a high of 75. One would expect that each loan officer could handle at least 100 borrowing clients, with 200 or more being the ideal target. Sustainability of a microenterprise project is influenced by its operating costs. If staffing costs are reduced because the loan officers can efficiently manage large portfolios, then the chances of the project being sustainable are increased. Otherwise, revenues would have to be high enough to offset all operating, financial and administrative costs, which would shift the burden to the borrowers.

i.) Profitability of Microenterprise Loans

All but one bank said that microenterprise loans were profitable, while two NGOs / UNRWA felt the same. Five entities in the NGO / UNRWA group stated that they were profitable, although one qualified its comment by saying that they were profitable, if risks could be reduced and rates increased. The other two organizations did not know or were not sure.

From an empirical standpoint, there must be some truth to the profitability aspect of a microenterprise program. Several banks currently lend to small businesses and microenterprises without the benefit of a formal donor-sponsored program, while others want to establish programs to enter the marketplace. Another factor to consider is that there is an oversupply of money in the Palestinian banking system, so that by having another market to absorb some of those excess funds would increase the banks' profitability. Current loan interest rates are at least double the rates that an institution could earn on investments in CDs, repurchase agreements, and other similar but secure alternatives.

j. Loan Application Rejections

The number of rejected loan applications is an area of a loan program that is always worth analyzing. In the case of the WBGs, there was a wide disparity among the commercial bank responses as to how many loan applications are rejected. Many applications were rejected at the branch level and did not make it to the credit committee stage. The principal reason for rejection was for the applicant's failure to meet the minimum established criteria. For the applications that reached the credit committee, rejection estimates ranged from a low of 2 percent to a high of 25 percent. The more common reasons stated were: project numbers were not believable; the borrower's reputation; poor collateral or guarantors; or insufficient cash flow.

Most of the NGOs and UNRWA had to estimate the number of applications that get rejected. Two organizations do not track this information. The range of responses of the other entities started at a low of 10 percent (2), to a high of 80 percent (1). While two others could not provide a percentage estimate, they did say that the rate was high. Reasons put forward for the rejections included:

- Lack of adequate capital,
- Don't have good guarantors,
- Borrower lacks appropriate skills, and
- Borrower does not have an established business.

Based on these comments, one may be able to say that the NGO /UNRWA group that was interviewed maintains a level of conservatism in their approach to microenterprise credit in this region. Even though their missions are development oriented, they do not provide credit to just any microentrepreneur who approaches them for assistance. They look towards the long-term development of the business and whether the credit offered will help or hinder them. Furthermore, because their loan monies are limited, they try to maximize the impact.

k.) Technical Assistance or Training Provided to Microenterprise Clients

Four of the seven banks (57%) provide some form of technical assistance or training to their microenterprise clients. Several mentioned that they contracted Massar Associates to conduct specific types of training for their programs.

However, only one of the nine NGOs and UNRWA did not have any technical assistance or training for their clients. This difference between banks and NGOs is understandable when one considers that commercial banks are not in the business of development as such. The provision of technical assistance and training requires an outlay of resources for which they are not normally compensated. To do so would imply a reduction in their profits. The banks that provide this service do so because it is part of their contracts with the donor organizations.

## **Chapter V**

### **Conclusions and Recommendations**

#### **I. Conclusions**

The study results discussed in the previous chapters answered most of the main questions raised at the outset of this report, although some uncertainties remain owing to the rapidly changing political and economic conditions in WBGS. In this chapter, we respond to each question in light of the demand and supply side findings already discussed in chapters III and IV and provide recommendations for USAID.

##### **1. What is the actual and projected market size for microfinance?**

The distinction between actual and potential is very large and significant to our recommendations. At present (1999), there is a relatively large amount of funds available to the microenterprise sector (estimated here to be at least \$78 million from the seven commercial banks, nine NGOs and UNRWA, which provided data on their involvement in the microenterprise sector; however, this amount could more likely be in the neighborhood of \$85 million when other banks and NGOs, raw materials suppliers, and moneychangers are factored in). This money is available for small to large loans, with and without collateral required, with the average loan size of loan being about \$8,872 from commercial banks and \$7,840 from the NGOs and UNRWA. Of course, not all microentrepreneurs would qualify for the loans according to the different regulations and requirements of individual loan programs, but this figure does indicate a substantial amount of funds accessible.

Banks do not ordinarily make microenterprise loans of less than \$500, (the range is from \$500 to \$50,000), while NGOs do in certain programs, especially those that targeting women and women organized in solidarity groups. The minimum and maximum loan that the NGOs and UNRWA will make ranges from \$212 to \$90,000. The estimated average loan size loan to a member of a solidarity group is \$886, within a range of \$212 to \$2,500 that the NGOs and UNRWA provide for such purposes. The issue, of course, is whether available credit actually satisfies the market that exists among microentrepreneurs and whether the microentrepreneurs qualify for the loans.

There is less money currently for the NGO and UNRWAlatter programs, but still there is no data to indicate that more people actively want the small loans that these programs offer than there is money available. Nor is there a report from the bankers interviewed that there are microentrepreneurs actively seeking formal (and generally larger) loans who are unable to do so because of a shortage of this type of credit although, of course, lack of information on these programs or geographic accessibility may mean a larger un-satisfied demand than these bank officers can perceive. . The issues, of course, are whether this available credit actually satisfies the market that exists among microentrepreneurs and whether the microentrepreneurs qualify for the loans.

Of the \$57.4 million that the seven banks reported to have available, they only had total outstandings of \$31.2 million as of June 1999, leaving \$26.2 million unused. The difference

between total outstandings and money available for the NGOs and UNRWA was much narrower. Total funds available (excluding one NGO not yet operating its program) were \$14.7 million, with total outstanding loans of approximately \$9.9 million. The amount unused and available to fund additional loans is \$4.8 million. No data were gathered on funds committed but undisbursed to microenterprise loan applicants. Nevertheless, it is felt that those amounts would not be large in relation to the balance of unused funds.

In 1999 (1997 figures), the WBGS microenterprise sector in the WBGS was large and diverse with 74,352 known establishments. Private enterprises employed 191,361 people or 22.4 percent of the labor force (from a total working-age population of 1,389,208). Microenterprises, forming 97 percent of private enterprises, provided the largest share of these jobs.<sup>8</sup> Moreover, these figures moreover are an underestimate because the Census of Enterprises did not include farms, except for livestock, and appears to have also omitted smaller informal, home-based establishments.

Many previous studies have reported that few business owners in the microenterprise sector have had loans from formal institutions. Our data supports this conclusion; only three percent had had a loan from a financial institution, bank or NGO for the start-up of their business. Some 68 percent of the respondents had relied on their own savings and 10 percent had had a loan from a family member. Nor was the traditional credit sector much more evident; again only three percent had loans from middlemen or moneylenders as the principal source of funds for the start-up of their business. Very few people had received a loan after the business was started. Only six percent of the respondents had received any kind of formal loan. To date, credit has not played an important role in the growth and development of the microenterprise sector in the West Bank and Gaza Strip.

In the current sample, only 21 percent of the microentrepreneurs felt that lack of access to credit was a serious problem for the growth and development of their businesses. Similar proportions of the sample were concerned about the conditions for receiving a loan such as a high interest rate, high collateral, too much paperwork, or a ceiling on loan amounts. Instead, people were most concerned about political factors such as Israeli border closures and the resultant market fluctuations. When asked specifically if they would take a loan from any formal credit institutions (bank, financial institution, or NGO), 60 percent said they did not want one.

Based on these figures, then, there would appear to be a small CURRENT market for additional credit in the WBGS microenterprise sector. This conclusion, however, may be somewhat misleading. Successful microenterprise programs, such as the USAID-supported Chemonics-Massar Associates program one mentioned above, apparently employ a proactive marketing and direct selling strategy, which is not typical of all the bank programs technically open to microentrepreneurs. Were this type of strategy Looking at preliminary information on the impacts of this strategy, it appears that, were it to be more widely used, there might indeed be a higher demand. Further research on this is certainly warranted. However, generally at present, because of political uncertainty, and the short period in which loans have been available in WBGS, and in the absence of a generally wide spread proactive approach, the actual (if not the

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<sup>8</sup> These figures may underestimate the employment provided by microenterprises and the informal sector.

latent) demand is smaller than it would be in the microenterprise sector of many other developing countries.

Certain interesting indications emerged, however, among the 40 percent% of respondents in the demand survey who did want a loan. The data also shows strong variations among sub-groups of entrepreneurs in terms of their attitudes towards and demand for credit. Statistical analysis indicates a strong positive relationship between education, size of profit margin, formal status of business (measured by registering their enterprise and paying taxes), and wanting a loan. Furthermore, people who have had credit in the past want more credit and are concerned about the loan terms that they might encounter.

Thus it appears that the upper, more successful group, less at the margin within the microenterprise sector, is interested in and concerned about getting access to credit. Very few of this group have been able to do so to date, either because either they are unaware of the available programs that they might qualify for, or because of there is uncertainty about their business within the unstable political climate, or, possibly, because they still had some of their own savings left (or support from family and friends).

The group least likely to want credit appears to be found in Gaza Strip as opposed to the West Bank. In Gaza, there is a lower education level, lower income, lower profit margins, and less credit available. This same group is much more likely to say their religion prohibits them from taking a loan, (where they would have to pay interest). They are also the ones most likely to identify factors of political instability as their chief business concern, while ranking credit access as being of no concern at all.

In sum, the data suggest that there could be a larger POTENTIAL market for microenterprise credit, particularly as (and if) the political situation stabilizes, Gaza residents are more integrated with West Bank residents, the economy normalizes and grows, (bank branches and NGO offices are opened in new towns and cities), and microentrepreneurs are willing (and able from a cash flow standpoint) to pay market interest rates of interest. Earlier reports automatically assumed that a widespread demand for credit exists,<sup>9</sup> but that assumption may have been false or at least based on an assessment of potential rather than acknowledged need for credit. On the other hand, there is every sign that, as the market develops and as individual microentrepreneurs are more linked and integrated with the formal sector, microentrepreneurs will seek credit from the banks and NGOs. This might happen at a more rapid pace if programs targeting microentrepreneurs adopt a proactive approach or increase their promotion of programs. Another key factor is the credit approval criteria of the various microenterprise lenders. The more strict the criteria, the fewer the number of microentrepreneurs who will qualify. A happy medium needs to be obtained between sound credit principles and the condition of the microentrepreneurs in the WBGS. The microenterprise sector is a major source of employment in WBGS and of income for the poor; , and it has not had much formal sector credit available. With more information about existing credit programs, entrepreneurs whose businesses are developing will seek credit, in all probability, in ever-increasing numbers in the next few years. Indeed, this research can not cannot delve completely into the gap between

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<sup>9</sup> See, for example, Stephen C. Wilcox, Karl F. Jensen, and Olaf E. Kula, "Microenterprise Finance Sector Assessment of the West Bank and Gaza: Final Report," Tel Aviv: USAID, February 1996.



expressed demand and money available on one side in bank loan reserves, (which was studied here), and actual behavior of borrowers when loans are directly marketed to them. Primarily banks provide the most desired loan size (between \$5,000 to \$10,000) and, where they may have money available, they may not have adequate mechanisms for reaching out to potential borrowers in terms of the way loans are publicized, packaged or sold. The experiences of the USAID Chemonics/Massar Project does not prove unlimited demand for credit in WBGS in through its experience of the first 18 eighteen months, but it does show that, even at a high interest rate, there are interested borrowers for programs that are tailor-made which are tailor-made for and sold to the microenterprise sector.

2. How can the potential microfinance sector be segmented to reflect the economic and social differences among microentrepreneurs?

The microfinance sector can indeed be segmented to reflect differences among microentrepreneurs. The study team investigated whether there was a distinctly different situation among the four major economic sectors in regard to need for credit. Here findings do not suggest that one sector, such as agriculture, is less likely to have access to formal credit. However, this finding is a bit misleading because so few people have ever received credit. There is no way of distinguishing whether or not one economic sector would have more difficulty than another would in obtaining credit.

Although survey data do not show a different demand level or credit experience among the four economic sectors, loans have to be tailored to each kind of business so the sector distinction remains important. From the information gathered from the banks and NGOs / UNRWA, many institutions base their loan approval on a feasibility study and cash flow analysis, which indicates that the repayment schedules are probably tied to the client's revenue stream and ability to pay. Thus farmers will not be able to have installment loans for crop production or animal raising, because they will not have any revenues until the crop or animal is grown or matures and is sold. At the same time, they may be more able to provide tangible collateral because they tend to own or have title to their land. On the other hand, those microentrepreneurs in the service sector may use shorter-term loans, but may not be able to provide tangible collateral—only family or friend's personal guarantees.

Location is an obvious subdivision as well. As noted above, Gaza residents were more hostile or indifferent to credit than respondents were from the West Bank. Nevertheless, the NGOs and UNRWA officials interviewed reported an equal number of offices in both the West Bank and Gaza, while the banks had twice as many branches in the West Bank. It is therefore understandable that there would be fewer funds for credit in Gaza because the commercial banks, which have the greatest amount of money to lend, have fewer branches in that area. Residents of refugee camps were also more likely than others in rural and urban areas not to want or understand “formal” credit, (followed by the poorer urban dwellers who appeared to know little about credit at all). More open and aggressive marketing of the existence of credit for micro businesses and increasing the number of credit outlets in these areas, while taking into consideration the costs involved, may change prevailing attitudes and increase understanding.

Gender is still a major factor in determining a person's chance to have a business of their own and access to credit. In the demand survey, it was very difficult to find women business owners, (although women provide the "often unpaid" labor in many enterprises). Those that were found were more likely to be widowed or have a sick husband, and were more educated than the average man or woman. Yet, although in some way an elite in the sample, women had smaller businesses, lower sales levels, of sales and smaller profit margins than men did. They were also significantly less likely to have access to credit, particularly from commercial banks. Only 17 percent of the banks' microenterprise portfolios were to women, while the NGOs and UNRWA made them their primary target in most cases (70% of their portfolios), but have fewer resources to work with. It is interesting to note however also, that women were more likely than men, on average, to express a desire for credit and wish it was available to them. This may or may not have to do with the lower political alienation and insecurity among women.

Whether or not a business was formal—that is registered with taxes paid—also proved to be important in the demand survey results. Those who had not registered and were in the informal sector were far less likely to know about or want credit for their businesses. This result suggests an alienation and marginalization of the informal sector that may need to be addressed. However, there is a tautology involved. Businesses with higher profit margins and entrepreneurs with more education were more likely to be in the formal sector. In other words, the person who has succeeded is more likely to expect and want more than the person who has not. In all likelihood, whether or not a business is formal is an artifact of other variables, so that the formal/informal distinction may not be useful in targeting financial programs.

3. Are there any market gaps that can be identified in the microfinance industry? What is the justification to extend further USAID assistance to this segment?

Taking each of these two questions in order, the following is an analysis of the potential "market gaps" in the microfinance industry, based on the results of the surveys conducted of samples of commercial banks, NGOs and UNRWA, raw materials suppliers, and microentrepreneurs in both the West Bank and the Gaza Strip.

There are four key areas that must be analyzed when looking at potential gaps in credit to microenterprises in the WBGS: location, business sector, availability of funds by location and sector, and the minimum/maximum amount available per borrower.

### 3.1. Location

As illustrated in Table 2 of the Supply Side Analysis, there are branches and offices of commercial banks and NGOs in both the West Bank and Gaza. Specifically, six of the seven banks have a presence in the West Bank and four are in Gaza. The nine NGOs and UNRWA have operations in both areas. Because of the limited scope of the supply side survey, it cannot be determined whether any particular cities, small towns, or villages exist that have a significant number of microenterprises without access to formal credit—or access to any credit in general although preliminary observation suggests that smaller and more isolated communities are less well served than major cities. THowever, the major cities and their surrounding areas do appear to have banks and NGOs present, and they are rather heavily involved in developing

microenterprise credit markets there. Nevertheless, it bears repeating here that a major constraint to the expansion of commercial bank credit to microenterprises is the shortage of trained loan officers. Even though they may have branches in key cities, not all branches offer microenterprise credit at present owing to this lack..

### 3.2. Sectors

Table 2 also shows the number of banks and NGOs / UNRWA that provide credit to the four specific economic sectors. On a combined basis, the range of organizations per sector runs from a low of 10 in the Trade / Commerce and Agricultural sectors in Gaza, to a high of 15 organizations serving the service sector in the West Bank. From these data, credit is widely available to every sector and from a significant number of organizations. The only deterrent to a microentrepreneur in obtaining a loan in these areas would be for not meeting the criteria established by the individual institutions, or not being aware that these institutions exist and have programs targeted to their needs.

### 3.3. Funds Available by Location and by Sector

Unless a bank or NGO / UNRWA is only working in one of the two areas, or in one city, it was not possible to determine how much credit each one had that was specifically targeted to a particular location or business sector. Also, it did not appear that the organizations actually allocated specific amounts of money to fund loans in each location where they had a branch or office. However, what is probably most important to note is that the funds are fungible and there is a current oversupply relative to borrowers who have presented themselves to file an application. The areas that present the acceptable loan applications are the ones that receive the resources, i.e., first come, first served.

### 3.4. Minimum/Maximum Amount per Borrower

Table 4 shows the aggregate ranges of loan sizes offered by banks and NGOs / UNRWA. The lowest stated amount that a microentrepreneur could borrow is \$212 at an NGO / UNRWA organization. At one commercial bank, the minimum amount is \$500. At the three other NGOs / UNRWA, the minimum is \$500, while three other banks offer a minimum loan of \$1,000. This area presents the greatest potential for possible gaps in credit to the four business sectors in both the West Bank and Gaza. In other words, is there a demand for credit (or “micro-credit”) in amounts under \$212 to \$500, or is there a demand in locations where the “low-end lenders” do not operate? Data from the both surveys—demand and supply side survey—could not verify that there actually was a need for smaller amounts (i.e., that potential borrowers presented themselves requesting this amount). In the demand survey, 15 percent of those who wanted a loan wanted one of between \$200 and \$1,000 but again, most respondents did not want loans at all and, among those who did, a much larger group (72%) requested loans between \$5,000 and \$10,000. This places most self-described potential borrowers in the range most generally served by banks and not by the NGO or UNRWA programs. .

From the information gathered in the surveys, it is evident that money is available, but may not be very well publicized to the microenterprise sector. Furthermore, the fact that 60 percent of the

nearly 700 respondents to the demand questionnaire stated that they did not want credit is significant. That fact, coupled with the comments that most microenterprises in the demand survey accessed funds from their savings or family and friends to finance their start-up working capital needs and this probably indicates that any demand for very small loans is (and probably would continue to be) met from the informal sector. . Another element in this equation is the “cost of living,” which is high in Palestine because of its dependency on Israel.

Therefore, if a gap exists at the very low end of the loan size spectrum, it may not be large and may be satisfied from other sources. Where the informal sector would encounter difficulties would be in trying to meet the microentrepreneur’s needs for larger-sized and longer-term loans. Here, the banks and NGOs / UNRWA appear ready and willing to fill that void.

At the present time, and in light of the data gathered in this study, it appears that the gaps which exist are mainly geographic, locational (i.e., in those towns or communities where bank offices do not exist), and gender -based, (as women are still less likely to receive loans). The primary need for USAID intervention may be on the amount of money available for microenterprises in both the West Bank and Gaza, there doesn’t appear to be a need for additional USAID monies for the loan fund for this sector. However, there may be a need for USAID to assist in identifying the under-served geographic areas in the WBGS with potential demand. USAID could further encourage likely banks and NGOs / UNRWA that have excess funds to target these areas for credit programs. Helping develop further gender- sensitive programs for banks which that offer middle to larger sized loans, (as opposed to the smaller solidarity group loans offered by the NGOs and UNRWA programs), is also needed. Currently, it appears there are substantial funds available to the microenterprise sector so that the sole addition of monies may not be advisable as a first priority until sector gaps are met, more bank officers trained to work with the microenterprise sector, and further proactive loan strategies developed.

4. Should USAID specifically target certain segments that are not currently being served or are under-served, and why?

A Beyond what was mentioned in the previous question, answering this question may also require stepping outside this study momentarily to consider what credit analyses for microenterprises have shown on a worldwide basis. There has been intensive interest in recent years among donors and government agents in providing credit to the microenterprise sector in developing countries. The assumption is that credit is a key missing factor in the sector that would allow these enterprises to grow and transform and help their proprietors emerge out of poverty. This has been seen as specifically important in the informal end of the sector. Traditional credit sources exist but these, so the argument goes, are not available in large enough amounts to all entrepreneurs who need loans. Moreover, traditional credit sources often require high interest, and provide short time periods before repayment is necessary. Formal credit institutions such as finance companies and banks have not made credit available because the small average loan size of loans makes these costly for the lender, while the expected high default rate in the absence of sufficient collateral guarantees makes them impractical. Although there have been some policy makers who have argued that supporting the traditional credit structure is better (more efficient and more sustainable in the long run) than “artificially” intervening to create special programs or directly subsidize formal credit institutions’ programs to reach micro business

owners, the last 15 years' experience suggests that, under certain conditions, this is false. Programs that provide credit to the microenterprise sector have often had broad positive results. They have not only increased employment and led to improved technology, but also expanded the credit market by inducing competitive financial institutions to broaden the range of what they offer to this sector.<sup>10</sup>

Not all programs have been successful, however, and actual impacts have varied widely depending on the type, scale, and efficiency of the business receiving a loan. In fact, poorer borrowers in general experience less of a transformation in their businesses because being "risk-adverse and having fewer opportunities, they are disinclined to invest profits in new technology or in hiring labor from outside the family."<sup>11</sup> What poorer borrowers do, however, is to transfer increased profits resulting from loans to family members, thus the net impact at this level is poverty reduction, an important benefit in itself.

Other recent studies on microenterprises show that those with employees other than the owner (two or more workers) are significantly more efficient and more remunerative than one-person enterprises. There is, in fact, a certain poverty cycle associated with loans to the smallest, and poorest (usually one person) enterprises. These experience a high rate of bankruptcy (20% per annum in a recent study), but also a high start-up rate (10% per annum).<sup>12</sup> Poor microentrepreneurs in all economic sectors move in and out of the market usually at more or less the same level in each new enterprise. Many of the poorest businesses that are only able to handle small loans, (which they are likely to use for replenishing or expanding their stock), will not be able to use those loans for significant business development. However, the loan is still significant as both owners and their families will benefit in their at least temporarily improved level of subsistence from having received the money.

Consistently, in this study there is a significant difference in attitudes and understanding of credit between the better-off and poorer proprietors, which may predict to the ability to use a loan productively. The wealthier, (but still poor), microentrepreneurs were found to be more likely to want credit and to know about it. They tend to be the better educated people and also the ones who have begun to link their business with the formal sector.

In the sections above, we have suggested that further packaging and marketing of credit are needed to bridge the gap in information between potential microentrepreneur borrowers and formal banking institutions (NGOs, being proactive, generally offer smaller loans not suitable for the needs of all microentrepreneurs).. In this section, though, we are suggesting that USAID and other donors that who may finance program for microentrepreneurs support such ventures have a choice in microentrepreneur target. The better informed more successful (but still poor) microentrepreneur is a better risk in terms of purely financial programs. The less successful, less well trained have a higher incidence of loan failures world wide and a much lesser probability of being able ,able, without substantial backup, to develop their businesses. (And some, of course,

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<sup>3</sup> D.W. Adams, D.H. Graham and J.D. von Pischke, *Undermining Rural Development with Cheap Credit*. Boulder: Westview Press, 1984; David Hulme and Paul Moseley, *Finance against Poverty*, Vol. 1. London: Routledge, 1996, (Chapters 1, 9).

<sup>11</sup> Ibid., p. 201.

<sup>12</sup> Donald C. Meade and Carl Liedholm, "The Dynamics of Micro and Small Enterprises in Developing Countries," *World Development*, Vol. 26, (No 1) 1999, pp. 61-74.

can not handle credit at all because of poor business practices, a failing business or other factors). However, loaning to the less successful, who are credit worthy and have viable business plans, markets and cash flows, is a way of helping the very poor to at least temporarily improve their quality of life. To the extent that the latter group are the chosen target, USAID should consider continuing subsidization of technical assistance to commercial loan programs established specifically targeting this group, especially since the most efficient use of loans for this group may require training and backup which will not be covered by loan interest or other bank charges.

5. Are there economic segments that require extra caution when considered for microcredit services? What critical factors should be considered?

In the demand survey, there was no indication that any economic sector had defaulted on their loans or that women were less credit worthy. Very few people had had loans of course. Of those who had, at least eighty five percent in agriculture, manufacturing, trade and services claimed they had never been late or defaulted on their loans. The same percentage of both men and women had never paid late, and never defaulted (by their own account). Banks and NGOs had a different perspective based on their experience.

With the exception of the microenterprise lenders that have agriculture as their primary or key segment, the majority of the remaining organizations interviewed reported that they perceived the agricultural sector to be the most risky. This included three banks (43%) and banks NGOs / UNRWA (44%). Other risky areas that they mentioned were:

- Ready-to-wear clothing manufacturing (competing with cheaper imports);
- Start-up businesses;
- Non-professional women;
- Large farmers (because of their size and money are not afraid of a lawsuit); and,
- High-rise construction.

The NGOs and UNRWA also felt that the service industry had a potential downside risk because of the high level of local competition and lack of capital in these businesses.

Nevertheless, when evaluating the delinquency data for microentrepreneurs, it is important to note that the small small farmers and female borrowers are no worse than any other sector group and have not had any of their loans written-off. Indeed, there are few write-offs for either bank or NGO/UNRWA clients. Why is this? Only assumptions may be made at this point because of the lack of specific information, but some possible reasons could include:

- The banks and NGOs / UNRWA do an excellent job of screening the loan applicants (high amount of “paperwork” / documentation);
- Feasibility studies and cash flow analyses are used to determine the viability of the business project and the client’s probability of repaying the loan and generating some profit;
- The strength, honesty, reputation, etc. of the personal guarantors offered are screened and evaluated; and

- Small farmers and women are more fearful of losing their assets, if pledged as loan collateral. Small farmers and women are more fearful of losing their assets, if pledged as loan collateral.
6. What is the economic and social profile of the current borrowers under the ongoing USAID commercial banking activity?

Table 17 summarizes the responses of the two commercial banks that have received support from USAID in setting up and operating microenterprise credit programs in the West Bank and Gaza Strip. It also describes, to the best of the ability of the persons interviewed, a typical economic and social profile of their microenterprise clients:

**Table 17: Economic and Social Profile – USAID Program Borrowers**

CLIENT DESCRIPTION	ARAB BANK	BANK OF JORDAN
Age (years)	30 – 32	25 – 26
Gender	90% Male	Mostly Male
Marital Status	Majority married	Married
Education	14 years	3 <sup>rd</sup> – 4 <sup>th</sup> grade
Number Members in Family	6	8
Number Years in Business	4 – 8	Don't know
Primary Source of Income	The Microenterprise	The Microenterprise
Secondary Source of Income	Few have other source	None
Location of Business	West Bank	West Bank
Business Sector	Trade / Commerce	Trade / Commerce
Start-up or Existing Business	Both	Existing
Asset Size	\$10,000 to \$12,000	\$10,000
Number of Employees	3	5

The results in Table 17 do not present any surprises. They basically confirm what was already known—that the primary clients are male, in the 25 to 35 year age group, married, with six to eight family members in total, primary to secondary level education, and primarily dependent on their business as their sole source of income. They (results) further show a compliance with the terms of their agreements with USAID.

Since these two banks finance principally the trade and commerce business sectors, there should be more female microentrepreneurs in their portfolios based on the data in the demand survey (48% of the women respondents were in the trade sector). More women borrowers at the banks were found in the service sector, followed by the agricultural sector. These two banks also target the West Bank at the present time, but expect to enter Gaza with a microenterprise program in the near future.

The fact that the enterprise's estimated average asset size is around \$10,000, loans of less than \$500 will not be of much use to them. Also, by having from three to five employees per business

implies a certain higher level of working capital needs, combined with their location in a high-cost area, as a result of the political situation.

7. What are the differences in the financial services needed among different M/E sector businesses?

The financial services most needed by different microenterprise sector businesses, (i.e., those that expressed a need for credit), may be disaggregated as follows:

7.1 Manufacturing and Light Industry

Financial services are needed for short-term credit to finance working capital, (for example, to purchase inventory, finance accounts receivable, and pay operating / administrative costs and production costs), and medium to long-term credit for the purchase of fixed assets, (such as machinery and equipment, office equipment, furniture, etc.). Once any credit is obtained, either from banks or NGOs / UNRWA, the business owners will need to have at least a checking account into which funds are deposited and out of which they would make any payments of principal and/or interest. Once profits and capital increase, that would put pressure on them to access savings and investment services.

7.2 Trade / Commerce

Primarily short-term credit for financing working capital needs (for example, purchase inventory, finance accounts receivable, and pay administrative / operating costs) is needed. To a much lesser degree, there is the occasional need for medium/long-term credit to purchase furniture and fixtures. Checking accounts are also needed to facilitate payments to vendors, etc.

7.3 Services

Since the services sector is much more diverse, covering such extremes as beauticians/barbers to auto mechanics, repairmen, etc., its financial services needs will vary. All need some form of short-term, working capital credit to purchase inventory used in their operation and to pay the administrative and operating expenses. Depending on the business, they may or may not need some medium to long-term credit to purchase machinery, equipment, or tools. In most cases, they need to have checking accounts in which to deposit their cash or sales paid by check. Savings and investment type accounts are also helpful for any idle cash balances.

7.4 Agriculture

The WBGS farmers could use short-term production credit, with terms tied to the cycle of the particular crop they are producing. By the very nature of the financing requirement, repayment of any production credit must be tied to the dates the farmer expects to harvest and sell the crop. Occasional medium to long-term credit may be necessary to finance the



purchase of farm machinery and equipment, implements, tools, and infrastructure (such as fences, irrigation systems, shade trees, etc.). Other financial services such as checking and savings accounts are helpful, particularly for receiving drawdowns under approved loan facilities, depositing checks received in payment of their crop sales, and making principal/interest loan payments.

For the most part, the manufacturing/light industry, trade/commerce, and services sectors' loan repayment terms lend themselves to periodic installment schedules. As previously mentioned, agriculture is the exception and is normally structured with payment due in full at maturity.

In the future, additional financial services will be needed. However, that is directly tied to the political situation. If Palestine is able to have its own seaport and airport for free and open (unrestricted) international trade and commerce, import and export letters of credit, remittances, collections, and other related financial services will be generated.

## **II. Recommendations**

After reviewing the data obtained from the demand questionnaires and supply side surveys, the following recommendations for USAID are proposed.

Attention First priority should be given to support/promoting existing bank and microenterprise proactive programs and encouraging a proactive strategy with appropriate loan packaging and marketing of loans to the microenterprises sector, rather than increasing the supply of loan funds. When demand begins to exceed available funds, further monies could then be made available for programs which target underserved areas and women. Since there appears to be an abundance of funds available for microenterprise sector loans, additional monies may not be needed at the present time. However, the funds that are in the system are not well allocated to the geographic areas of need, so that some areas of the WBGS have an oversupply, while others have no access. What USAID could consider, as a more efficient use of its resources, are the following options:

1. Sponsor (or fund) a more comprehensive study of the existing commercial banks and NGOs / UNRWA microenterprise credit programs for the purpose of publishing a booklet containing information on all of these programs. The document would be distributed to all key areas of WBGS in the local language and include, but not be limited to:
  - The institution's name, main address, telephone and other contact numbers, primary contact person(s), and the same information for all branches and offices outside of their main office;
  - The types of microenterprise credit they provide (which sectors);
  - Areas where they lend;
  - Minimum and maximum loan amounts available;
  - Currencies used;
  - Minimum and maximum terms;
  - Collateral and other paperwork requirements;
  - If financing is available for existing and/or start-up businesses;

- If gender is a factor;
- Other specific eligibility requirements;
- Any commissions or fees charged (over and above an interest rate and PMA loan fee);  
and
- If they provide any technical assistance or training.

This booklet would serve as to both a marketing and promotional tool to be used to inform microentrepreneurs about the credit that is available to them and the general loan terms and conditions. The microentrepreneur can then follow-up to obtain more specific information on any organization that they might be interested in, such as the interest rates and commission or fee rates that they charge, the frequency which frequency that they are collected, and how they are calculated.

2. Fund, or provide courses or workshops, for training more microenterprise loan officers for existing banks and NGOs with microenterprise lending programs, and those existing commercial banks that don't yet have this type of program, but want to establish one.
3. Support existing banks and NGOs to expand their involvement into new areas or support new groups (such as women) not currently being served or under-served. This may include financing of a portion of start-up costs to begin operations in a designated target area to cover items such as the purchase of computer equipment and/or microenterprise program software; preparation of microenterprise lending program internal policies and procedures; and/or finance part of the new microfinance staff salary on a short-term or interim basis.
4. Provide funding for a study of those cities and towns in both WB and GS where no credit programs currently exist, to identify the potential demand for microenterprise credit by economic sector.
5. Build and encourage linkages within the micro credit sector. For example, where an existing NGO does not have sufficient funding to extend credit to qualifying microenterprises, pay the NGO a fee for doing the background investigation of the potential client and referring the client to local institutions that would be able to finance the venture; i.e., a type of referral or finder's fee. Encourage partnering between commercial banks and NGOs, wherein the NGOs refer microentrepreneurs to the bank for financing, while the NGOs continue to provide technical assistance or training to microentrepreneurs to assist them to develop and grow their businesses.
6. Continue to periodically monitor the quarterly reports presented by existing USAID-funded microenterprise loan fund contractors, looking in particular at the following information, if available:
  - Numbers of loan applications rejected during the quarter, Y-T-D, and since project inception;
  - The level that rejected the applications (i.e., branch, headquarters, credit committee, other);
  - The applicant's gender;

- The economic sector of the applicant's business; and,
- The most frequent reasons for loan rejection.

This information would be a good indicator of both an increasing loan demand and type of applicant seeking credit. It would also provide information as to whether the institution is too strict in its criteria, and what areas the applicants may have in common that require improvement. If USAID contractors do not currently provide this information, it would be helpful if they could begin to collect this information.

7. With the data received, USAID could conduct a study to analyze the more frequently-occurring reasons for loan rejections and see if any technical assistance or training could be provided to the microentrepreneurs to correct any minor deficiencies in an otherwise viable project or business that would make the applicant creditworthy. This recommendation would only apply if there are large numbers of microentrepreneurs whose businesses/projects have a common deficiency that, if corrected, would be approved for loans by banks or NGOs., If this is the case, where USAID funding would be made available to develop and implement a project or grant for that purpose. An option would be to channel the resources to existing NGOs that have the capability to implement such a program.





**ANNEX I:  
SCOPE OF WORK FOR THE ASSESSMENT REPORT**

**ANNEX II:  
BIOGRAPHICAL INFORMATION ON TEAM MEMBERS**

### ANNEX III

#### LIST OF COMMERCIAL BANKS AND NUMBER OF BRANCHES

<u>NAME OF INSTITUTION</u>	<u>NUMBER OF BRANCHES</u>	
<b><i>National Banks:</i></b>		
Bank of Palestine	14	
Commercial Bank of Palestine	5	
Palestine Investment Bank	6	
Arab Islamic Bank	6	
Jerusalem Development & Investment Bank	4	
Arab Palestinian Investment Bank	1	
Palestine International Bank	2	
Palestine Islamic Bank	2	
AL- Aqsa Islamic Bank	<u>1</u>	
Total National Banks .....		41
<b><i>Arab Banks:</i></b>		
Cairo Amman Bank		19
Arab Bank	16	
Bank of Jordan	6	
Arab Land Bank	5	
Jordan Gulf Bank	3	
Jordan National Bank	5	
Housing Bank of Jordan	4	
Jordan Kuwaiti Bank	1	
Union Bank for Saving & Investment	1	
The Principal Bank of Development & Agricultural Credit	1	
Total Arab Banks .....	<u>61</u>	
<b><i>Foreign Banks:</i></b>		
A.N.Z. Grindlays Bank	2	
Discount Bank	1	
The British Bank of the Middle East	<u>1</u>	
Total Foreign Banks .....		4
GRAND TOTAL ALL BANKS .....	<u>106</u>	
[Includes newly-opened branches.]		



## **LIST OF ORGANIZATIONS VISITED**

The Microenterprise Survey consultant contacted the following entities, including commercial banks, NGOs, suppliers of raw materials to microenterprises on credit, international organizations, and a USAID contractor, to collect information on the extent of their involvement with and credit programs available to microenterprises in the West Bank and Gaza Strip.

### **Commercial Banks**

- Arab Bank
- Bank of Jordan
- Cairo Amman Bank
- Commercial Bank of Palestine
- ANZ Grindlays Bank
- Jordan National Bank
- Bank of Palestine Ltd.
- Principal Bank of Development and Agricultural Credit

### **Non-Governmental Organizations**

- CARE International
- Save the Children / Faten
- American Near East Refugee Aid (ANERA)
- Center for Women's Economic Projects (C.W.E.P.)
- Arab Center for Agricultural Development (ACAD)
- Palestinian Agricultural Relief Committees (P.A.R.C.)
- Palestine-German DEG Business Start-Up Program
- YMCA
- Palestinian Development Fund (PDF)

### **Raw Materials Suppliers**

- Paint Supplier
- Wood Supplier

### **International Organizations**

- United Nations Relief and Works Agency (UNRWA)
- International Finance Corporation (IFC)

### **USAID Contractor:**

- Chemonics International, Inc.

## LIST OF PEOPLE INTERVIEWED, BY INSTITUTION

### Name of Institution/Organization

### Contact Name and Title

#### Commercial Banks

- ANZ Grindlays Bank Ahmad Fahmi Hamad / al-Tarifi, Regional Mgr.
- Arab Bank Anton Batika, Manager. Ramallah Branch

#### **II. Nadir Aqel, Microenterprise Programs**

#### **Ronald R. Bielen, M/E Advisor**

- Bank of Jordan Susan Khoury, Manager
- Bank of Palestine Ltd. Alaa Al-Ridwan, Credit Manager
- Cairo Amman Bank Ahmad Aweidah, Manager - Mktg. & Product Development
- The Commercial Bank of Palestine David Munro, Resident Advisor, IFC Lending Program
- Jordan National Bank Lex Barker, Resident Advisor, IFC M/E Project
- Principal Bank of Development & Agricultural Credit Abbas Abdulhadi Abbas, Gaza Branch Manager

#### NGOs

- ANERA Dr. Thomas Neu, Middle East Rep.  
Mazen Dabbagh, IFAD Program Manager  
Salah Sakka, Gaza Strip Director
- Arab Center for Agricultural Samir Al-Barghouthi, Economist /
- **D. Development (ACAD) General Director**
- CARE International Earl Wall, Country Director
- **E. Ayman Mashni, Program Specialist**
- CWEP Reem H. Abbushi, Project Director
- FATEN Maissa Hawwash
- Palestine – German Business Bernd Leidner, Program Coordinator
- **F. Start-up Prog./ DEG**
- Palestinian Agricultural Relief Committees (PARC) Rula Nesnas
- Palestinian Development Fund Sami A. Saidi, Projects Manager
- YMCA Adnan Shalalkeh, Program Director

#### International Organizations

- IFC Beata Lenard, Consultant – Central Asia, Middle East, N. Africa
- UNRWA Jane Giacaman, M/E Credit Prog. Officer

#### Raw Materials Suppliers

- Paint supplier, Ramallah Isma'eel Fukaha, Owner
- Wood supplier, Ramallah Sufian Mimi, Owner

Other Organizations

- Chemonics International, Inc. Brian J. McGill, Res. Advisor, M/E Lending Project
- Palestine Monetary Authority Mohammad Aref, Research Department

**SUPPLY SIDE ASSESSMENT OF MICROENTERPRISE (M/E) CREDIT**

NAME OF INSTITUTION: \_\_\_\_\_ DATE: \_\_\_\_\_

1. ELIGIBILITY REQUIREMENTS FOR MICROENTERPRISE BORROWERS:

NUMBER OF EMPLOYEES? \_\_\_\_\_

START-UP OR EXISTING BUSINESS? \_\_\_\_\_

WOMEN INCLUDED? \_\_\_\_\_

2. TIME NEEDED TO APPROVE / REJECT LOAN APPLICATION: \_\_\_\_\_

WHO APPROVES LOANS? \_\_\_\_\_

3. CRITERIA FOR APPROVING LOANS :

- LOAN APPLICATION
- CREDIT HISTORY
- CASH FLOW
- COLLATERAL
- BUSINESS PLAN
- OTHER:

4. APPROVAL BASED ON COLLATERAL OR CASH FLOW?

WHAT TYPES OF COLLATERAL ARE REQUIRED?

5. WHAT M/E SECTORS DO YOU LEND TO? INDUSTRY \_\_\_\_\_

COMMERCE \_\_\_\_\_ SERVICE \_\_\_\_\_ AGRICULTURE \_\_\_\_\_

6. IS THERE ANY M/E SECTOR YOU CONSIDER TOO RISKY? \_\_\_\_\_

7. WHAT PURPOSES OF LOANS ARE ELIGIBLE:

INVENTORY \_\_\_\_\_ ; ACCTS. REC. \_\_\_\_\_ ; SALARIES \_\_\_\_\_ ;

OTHER EXPENSES \_\_\_\_\_ ; FIXED ASSETS \_\_\_\_\_ ; OTHER \_\_\_\_\_

8. INTEREST RATES CHARGED: US\$\_\_\_\_\_; JD\_\_\_\_\_; NIS\_\_\_\_\_

FIXED: \_\_\_\_\_ VARIABLE: \_\_\_\_\_

WHEN IS INTEREST COLLECTED? \_\_\_\_\_

9. ARE COMMISSIONS OR FEES CHARGED? US\$\_\_\_\_\_; JD\_\_\_\_\_; NIS\_\_\_\_\_  
WHEN ARE THEY COLLECTED?

10. NORMAL TERMS AVAILABLE:

SHORT TERM \_\_\_\_\_ MEDIUM TERM \_\_\_\_\_ LONG TERM \_\_\_\_\_

11. REPAYMENT TERMS POLICY:

IS THERE A GRACE PERIOD? \_\_\_\_\_; HOW LONG? \_\_\_\_\_

12. CONCESSIONS MADE FOR M/E BORROWERS IN RATE; FEES; TERMS; ETC.?

13. IS LOAN PORTFOLIO COMPUTERIZED OR MANUAL?

14. WHAT IS YOUR LOAN MONITORING OR LOAN SUPERVISION POLICY?

DO YOU MONITOR USE OF LOANS FOR THEIR INTENDED PURPOSE?

15. HOW MANY M/E LOANS ARE OUTSTANDING NOW? \_\_\_\_\_

16. WHAT IS TOTAL AMOUNT OF LOANS OUTSTANDING NOW? \_\_\_\_\_

17. WHAT HAS BEEN THE HIGHEST M/E LOAN VOLUME OUTSTANDING TO DATE?

18. AVG. M/E LOAN SIZE: \_\_\_\_\_ AVG. M/E LOAN TERM (in months): \_\_\_\_\_

19. NUMBER M/E BORROWERS NOW: \_\_\_\_\_ No. MEN \_\_\_\_\_; No. WOMEN \_\_\_\_\_

HIGHEST No. M/E BORROWERS: \_\_\_\_\_ No. MEN \_\_\_\_\_; No. WOMEN \_\_\_\_\_

20. ARE LOANS MADE TO SOLIDARITY GROUPS? \_\_\_\_\_ EXPLAIN: \_\_\_\_\_

21. DELINQUENCY EXPERIENCE:

NO. of LOANS CURRENTLY DELINQ.: \_\_\_\_\_  
AMOUNT M/E LOANS DEL \_\_\_\_\_

HIGHEST No. LOANS DELINQUENT: \_\_\_\_\_  
HIGHEST AMOUNT LOANS DEL. \_\_\_\_\_

NO. of CURRENT LOANS DELINQUENT:  
TO MEN: \_\_\_\_\_ TO WOMEN: \_\_\_\_\_

AMOUNT OF LOANS CURRENTLY DEL. TO MEN: \_\_\_\_ TO WOMEN: \_\_\_\_

WHICH BUSINESS SEGMENT HAS HIGHER DELINQUENCY? \_\_\_\_\_

22. M/E LOAN WRITE-OFFS:

TOTAL # M/E LOANS WRITTEN OFF: \_\_\_\_\_ ;  
TOTAL AMT. W/OFF \_\_\_\_\_

TOTAL # M/E LOANS WRITTEN OFF TO MEN: \_\_\_\_; TO WOMEN: \_\_\_\_

TOTAL AMOUNT OF M/E LOANS W/OFF TO MEN: \_\_\_\_; TO WOMEN: \_\_\_\_

DO YOU REFINANCE DELINQUENT LOANS? \_\_\_\_\_

23. WHAT IS AVG. NUMBER OF M/E BORROWERS PER LOAN OFFICER?

24. ARE M/E LOANS PROFITABLE?

25. WHAT SOURCES OF FUNDS ARE USED TO FINANCE M/E LOANS?

26. HOW MUCH MONEY IS AVAILABLE FOR M/E LOANS:

FROM OWN FUNDS - \_\_\_\_\_ FROM DONORS - \_\_\_\_\_  
(WHOM) \_\_\_\_\_

FROM OTHER SOURCES (Specify) - \_\_\_\_\_

WHAT ARE THEIR SPECIFIC REQUIREMENTS / CONDITIONS?

27. IS THERE A MINIMUM \_\_\_\_\_ and / or MAXIMUM \_\_\_\_\_ LOAN SIZE?

28. HOW MANY LOAN APPLICATIONS GET REJECTED? \_\_\_\_\_

REASONS:

29. DO YOU PROVIDE ANY T/A, TRAINING OR OTHER NON-FINANCIAL SERVICES

TO M/E? \_\_\_\_\_

30. WHAT IS YOUR LOAN DISBURSEMENT POLICY FOR M/E LOANS?

31. WHAT ARE YOUR FUTURE PLANS FOR LENDING TO M/E?  
WHAT ARE YOUR CONSTRAINTS / LIMITATIONS FOR DOING SO?

32. WOULD YOU WANT TO MANAGE A DONOR LOAN FUND FOR M/E? \_\_\_\_\_  
IF YES, WHAT WOULD BE YOUR REQUIREMENTS TO DO SO?

**FOR USAID PROGRAM BANKS ONLY:**

33. DESCRIBE YOUR TYPICAL M/E CLIENT -

- |                                  |                              |
|----------------------------------|------------------------------|
| - ASSET SIZE                     | - AGE                        |
| - BUSINESS SECTOR                | - YEARS IN BUSINESS          |
| - # EMPLOYEES                    | - PRIMARY SOURCE OF INCOME   |
| - LOCATION WITHIN WEST BANK/GAZA | - SECONDARY SOURCE OF INCOME |
| - START-UP OR EXISTING BUSINESS  | - MARITAL STATUS             |
| - GENDER                         | - # MEMBERS IN FAMILY        |
| - EDUCATION                      | - OTHER:                     |

34. INTEREST RATES PAID ON SAVINGS DEPOSITS: \_\_\_\_\_

OTHER COMMENTS:

## ANNEX IV

### Sample Distribution

#### Analysis of Demand for Credit among Owners of Microenterprises WBGS Survey: July-August 1999

The demand assessment survey's objective was to produce reliable data that objectively reflects demand among different segments of the microenterprise sector, in this case among the owners of establishments who have the responsibility to make business decisions including borrowing. Several previous studies of microfinance demand in this sector in the West Bank and Gaza have been conducted, but none of these has systematically and randomly assessed the population under consideration.<sup>13</sup> This study intends to fill this gap, using a systematically designed sample and sampling procedure. The most reliable basis for analysis would be a full census-type survey of all owners of enterprises (based on enterprise location). However, the survey instrument itself is long (to cover the various facets of the analysis) and the research team faced the usual constraints of doing the work in a timely fashion and not exceeding a specific budget. Therefore, a survey census of all eligible enterprises cannot be considered. In its place, a random sample survey of 650 was undertaken, approximately 1 percent of all microenterprises.<sup>14</sup> Nonetheless, statistically significant numbers are collected for all the major sectors under review here, so that this sample is scientifically valid even at its smaller size.

The distribution of all enterprises in the West Bank and Gaza varies widely from area to area, both in number and employment level:

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<sup>13</sup> For example, Stephen C. Silcox, Karl F. Jensen and Olaf E. Kula, Microenterprise Finance Sector Assessment of the West Bank and Gaza; Final Report, (prepared for USAID West Bank and Gaza Mission, February 1996; Massar Associates, Microfinance Base-Line Survey; Final Report, (Prepared for Microenterprise Lending Program, Chemonics International, Arab Bank and USAID, May 1998), Massar Associates, Microfinance Base-Line Survey, (for the Commercial Bank of Palestine, Ramallah, 1998).

<sup>14</sup> Total figure of 74,562 establishments employing less than 10 persons. See Palestine National Authority, Final Results Establishments Report, (Ramallah: Central Bureau of Statistics, December 1998), p. 41. This number includes "microenterprises" with large capital assets (more than \$10,000) which are excluded from this survey.

**G. Table 1: Distribution of Enterprises in the West Bank and Gaza**

Location	No. of Enterprises	Percentage
<b>West Bank</b>		
<b>Jenin</b>	<b>7,545</b>	<b>13.9%</b>
Tubas	722	1.3%
Talkarm	4,776	8.8%
Qalqilya	2,359	4.3%
Salfit	1,230	2.3%
Nablus	10,437	19.3%
Ramallah & Bireh	7,211	13.3%
Jerusalem	2,980	5.5%
Jericho	688	1.3%
Bethlehem	4,555	8.4%
Hebron	11,700	21.6%
<b>III. Total</b>	<b>54,203</b>	<b>100%</b>
<b>Gaza</b>		
<b>North Gaza</b>	<b>3,133</b>	<b>14%</b>
Gaza	10,353	46.2%
Deir Al-Balah	2,613	11.7%
Khan Younis	3,900	17.3%
Rafah	2,429	10.8%
<b>IV. Total</b>	<b>22,428</b>	<b>100%</b>
<b>V. TOTAL WBGS</b>	<b>76,631</b>	<b>100%</b>

One step to assure a scientifically random distribution would be to reflect the distribution of microenterprises (Census categories 5-9, 1-4 employees), according to the 1997 Establishments Report in the two areas (West Bank and Gaza), according to the type of enterprise (area of activity: Industry (Production), Trade, Services and Agriculture).

**Table 2: Area of Activity of Establishments with less than 10 Employees in West Bank and Gaza**

Economic Activity	Number Establishments	Percentage Total Establishment
<b>Agriculture</b>	6,352	8.5%
<b>Manufacturing</b>	14,891	20%
<b>Trade</b>	39,359	52.8%
<b>Service</b>	13,920	18.7%
<b>Total</b>	<b>74,562</b>	<b>100%</b>

A closer study of the Census figures, however, suggests that there may be a misleading distribution therein for our purposes. It appears that both agriculture and services may be underrepresented, especially if geographic differences are taken into account. Only 8.5 percent of the total of micro establishments are classified as agricultural, animal husbandry, or fishing businesses (or mining), significantly less than the distribution of



employed persons in the 1997 Labour Force Report (10% of the population was employed in agriculture, animal husbandry, forestry or fishing).<sup>15</sup> This smaller percentage reflects the exclusion of all agricultural activities, but livestock, in the report. It may also indicate the decline of this sector and the absence of many informal sector agricultural establishments from the Establishment report data.<sup>16</sup> In any case, it raises a potential problem of representation of this sector with such a small proportion of the total. This problem is more severe if one considers employment with cities and camps excluded. In villages, agriculture is much more important, employing 32.1 percent of the total employed population.<sup>17</sup> Thus this sector, which is of significance in both the overall economy<sup>18</sup> and in employment as such, will have to be over sampled beyond its proportion of overall establishments.

In the case of Services, where 27.7 percent of the Labor Force was employed in 1997, the relatively low number in the Establishment Report (18.7%) appears to come from coding certain activities that would normally be considered service as trade. For example, repairs and maintenance are included in the trade sector. In this survey, activities which are normally considered such will be classified as service activities and the Service sample size will be expanded to a larger proportion than in the Census report.

The study objective is to analyze demand among microenterprises with small or medium capital assets, and not among those with more than \$10 to 25,000. The report's overall figures on establishments do not distinguish between these groups. The following table shows the distribution of establishments if inappropriate activities, such as teaching, social work, real estate, financial intermediation, construction, mining, and quarrying, are eliminated as likely representing the formal and more affluent sector that is outside the scope of this research. This table is still based on Establishment Report numbers.

**VI. Table 3: Distribution of Enterprises excluding Modern/ High End Business**

Enterprise Activity	No. of Enterprises	Percentage
<b>I. Agriculture</b>	6,065	9.6%
<b>Manufacturing</b>	14,463	22.9%
<b>Trade</b>	39,359	62.4%
<b>Services</b>	3,190	5%
<b>TOTAL</b>	63,077	100%

Our sample has not only to distinguish among demands of different types of establishment, but also obtain a statistically significant sample for each of the other sub-groups in which we had a concern. The scope of work identified the following:

- Formal/informal
- Gender

<sup>15</sup> Palestinian Monetary Authority, "Statistical Bulletin," March 1999, p. 40.

<sup>16</sup> Small informal home-based establishments seem to have been largely excluded, although all establishments technically are covered. Establishment Report, p. 16.

<sup>17</sup> 28% of the total employed population lives in villages. Ibid., p. 63.

<sup>18</sup> In 1996, the agricultural sector contributed 12.2% to the GDP. PMA, Third Annual Report, p. 97.

- Type of Business
- Location:
  - Permanency of structure
  - Urban/rural/camp
  - Geographic Distribution
- No. of Employees
- Financial Importance of Business to Client
- Income (Net Profit)

Given the above considerations and the need for significant sub sample groups for analysis, we could not mirror the Census of Establishments, even slightly revised to eliminate under and over representation and the micro businesses in areas of activity likely to have assets of over \$10,000. To conduct our study, we needed to expand the service and agricultural samples and contract the trade sector, although this still remains the dominant sector. We also had to oversample women owners of microenterprises; 11.3 percent of the labor force in Gaza and the West Bank in spring 1999 were female, but a significant percentage of these were employees rather than business owners.<sup>19</sup> In 1997, as Table 5 below illustrates, 56 percent of women in the Labor Census were employees, with the other large group being self-employed. This figure, of course underestimates informal unregistered establishments.

**Table 4: Employment Status 1997<sup>20</sup>**

Employment Status	Total	Percentage Men in Total	Percentage of Total Women in Each Category
Employer	<b>6%</b>	<b>98.4%</b>	<b>Less than 1%</b>
Self Employed	<b>23%</b>	<b>90.8%</b>	<b>15.8%</b>
Wage Employee	<b>61%</b>	<b>87.8%</b>	<b>56%</b>
Unpaid Family Member	<b>10%</b>	<b>64.5%</b>	<b>27.4%</b>

A 1998 study found women were 9 percent of the owners of micro businesses in the central area of the West Bank surveyed.<sup>21</sup> This percentage is undoubtedly higher than would the case if both areas of Palestine were included, as women were only 9 percent of total private employment in Gaza and the West Bank in 1996 (including larger establishments).<sup>22</sup> Moreover, even the former figure of 9 percent would be too small a percentage of our sample to provide the critical minimum for analysis in this study, especially if the sample is sub-divided between the two areas.

Our sample, therefore, ensures sufficient representation of women, proprietors of agricultural establishments and services, and those from Gaza, although this means their percentage of the

<sup>19</sup> UNSCO, Report on Economic and Social Conditions in the West Bank and Gaza Strip, Spring 1999 (Summary Preview), points out that women's labor force participation declined in 1998, falling to 11.7 percent from 12.3 percent in 1997, p. 5. In 1997, 14% of the labor force was female.

<sup>20</sup> Derived from the PCBS, "Labour Force Survey," p. 78.

<sup>21</sup> Microfinance Baseline Survey, p.26.

<sup>22</sup> UNSCO, The West Bank and Gaza Strip Private Economy: Conditions and Prospects; Special Report, (Gaza: February 1998), p. 10.

total is higher than it would be if we allocated percentages by actual distribution. Since this study is not assessing the distribution of types of enterprises but rather the demand for credit among different sub sectors of enterprise owners, this decision appeared justifiable. We therefore devised the following distribution of questionnaires:

**Table 5: Sample Distribution in the West Bank**

Location	Manufacturing	H. Trade	Services	Agriculture	Total
Urban	56	98	70	0	224
Rural	16	28	20	80	144
Camps	8	14	10	0	32
<b>Total</b>	<b>80</b> (20%)	<b>140</b> (35%)	<b>100</b> (25%)	<b>80</b> (20%)	<b>400</b> (100%)

The sample distribution of the West Bank in Table 5 above is based on the following factors:

- The sample size (400) constitutes 62 percent of the total sample size (650).
- The micro and small businesses are mainly concentrated in urban areas, with the least number in camps. Therefore, the researchers decided to distribute the sample as follows: 70 percent urban, 20 percent rural and 10 percent camps, excluding the agricultural sector which is 100 percent in rural areas.
- To overcome the limitations of the census results as explained earlier, the researchers decided to represent the four main sectors according to the following distribution: Manufacturing 20 percent, Trade 35 percent, Services 25 percent and Agriculture 20 percent.
- The distribution of the sample based on gender will be 80 percent male and 20 percent female.

**Table 6: Sample Distribution in Gaza Strip**

Location	Manufacturing	Trade	Services	Agriculture	Total
Urban	25	44	31	0	125
Rural	10	18	13	50	50
Camps	15	26	19	0	75
<b>Total</b>	<b>50</b> (20%)	<b>88</b> (35%)	<b>63</b> (25%)	<b>50</b> (20%)	<b>250</b> (100%)

- I. The sample distribution of the Gaza Strip constitutes 38 percent of the total sample size (650).
- The distribution of the sample in Gaza Strip is different than the distribution in the West Bank. The rural areas are fewer and the camps are dominant. Therefore, the researchers decided to distribute the sample as follows: 50 percent urban, 20 percent rural, and 30 percent camps, excluding the agricultural sector which is 100 percent in rural areas.
  - To overcome the limitations of the census results as explained earlier, the researchers decided to represent the four main sectors according to the following

- distribution: Manufacturing 20 percent, Trade 35 percent, Services 25 percent and Agriculture 20 percent.
- The distribution of the sample based on gender will be 80 percent male and 20 percent female.

**Table 7:** (see full report)

The areas selected in the above tables have more than 84 percent of the total number of enterprises in the West Bank and Gaza. In each location, the number of enterprises was selected based on their proportion of the total number of establishments in each respective sector. For example, enterprises in the manufacturing sector in Jenin area constituted 10 percent of the total number of enterprises in the manufacturing sector in the surveyed locations. Therefore the number of enterprises (8) represents 10 percent of the sample size in the manufacturing sector (80). All numbers of enterprises selected in the specified areas and sectors are selected on the same principle.

Allocation of the questionnaires was based on a multi-stage, stratified random sampling procedure. We used two methods in this survey:

- In villages and for the agricultural sample, enumerators were asked to identify a proprietor and from him find out the location of others and then, skipping every few farms (depending on population density), administer questionnaires until the sub sample was completed.
- In towns and for the three other areas of activity (manufacturing, trade and services), the interviewers were instructed, for each sector and location, to skip every three or five establishments until the sub sample was completed.

Enumerators were instructed to skip gold and jewelry shops, electrical/electronics supply stores, large-scale leather and metal workers, and any shop exhibiting highly sophisticated equipment and expensive premises, but to include family farms and enterprises run from the home. Only establishment proprietors able to make financial decisions for the enterprise are included and only those who have fewer than 10 employees.



**ANNEX V**  
**MICROENTERPRISE SECTOR – DEMAND FOR FINANCIAL SERVICES SURVEY**  
**FORM**

Questionnaire No: \_\_\_\_\_

Interviewer Name : \_\_\_\_\_

Date of Interview : \_\_\_\_\_

---

## **Microenterprise Sector: Demand for Financial Services**

The purpose of this survey is to gather information about small businesses. Businesses have been selected from different sizes and sectors of activity. We are interested in what you do and what your businesses conditions are. This questionnaire will not have your name on it and what you say will be kept totally anonymous. We appreciate your help !

### **I. Characteristics of Enterprise**

1) the Location of the business is: ( )  
(Please circle one)

1. West Bank-Jenin, 2) West Bank- Talkarm, 3) West Bank Nablus, 4) West Bank-Ramallah,- Bireh, 5) West Bank- Jericho), 6) West Bank-Bethlehem , 7) West Bank-Al-Ezariah, 8) West Bank- Hebron), 9) North Gaza, 10) Gaza, 11) Khan Younis)

2) Business is situated in a: ( )  
(Please circle one)

1. primarily rural area      2. primarily urban area      3. refugee camp

3) Type of Business: ( )  
(Please circle one)

1) Agriculture-livestock, 2) Agriculture-poultry, 3) Agriculture- bees, 4) Agriculture - Fruits & Vegetables, 5) Agriculture - other, 6) Fishing 7) Production/manufacturing -soft drinks & food, 8) P&M-garments, 9) P&M-utensils, 10) P&M-furniture, 11) P&M-leather, 12) P&M-metal products, 13) P&M- non metal products, 14) P&M-Others, 15) Trade -wholesale, 16) Trade-retail, 17) Services-repairs personal, 18) Services-repairs machinery 19) Services-Car repair & maintenance, 20) Services- Personal Services (hair dressing, cleaning etc.), 21) Services - food, 22) Other

4). Location Type ( )  
Do you own your place of business or do you rent it? (Please circle one)

- (for agriculture) - own property - over 5 dunums
- (for agriculture) - owns property - less than 5 dunum
- (for agriculture ) - rents property - over 5 dunums
- (for agriculture) - rents property - less than 5 dunums
- (for all others) - permanent structure (owns)

- (for all others ) - permanent structure (rents)
- (for all others) - open air (street vendor, peddler etc.)
- Other

5) Is the business place also your place of residence? ( )

(Please circle one)

1) No 2) Yes

6) Year business was acquired \_\_\_\_\_(Please circle one) ( )

1) before 1985, 2) 1986-1990, 3) 1991-1995, 4) 1996, 5) 1997, 6)1998 to present

7)Number of. Workers at start \_\_\_\_\_ ( )

8) How many workers now? \_\_\_\_\_ ( )

9) How many paid workers? \_\_\_\_\_ ( )

10) How many unpaid workers? \_\_\_\_\_ ( )

11) How many female workers (total)? \_\_\_\_\_ ( )

12) How many part time or seasonal workers? \_\_\_\_\_ ( )

13) How many children workers (below 16)? \_\_\_\_\_ ( )

14) Business operates how many months a year? \_\_\_\_\_ ( )

15)What is the **principal** source of the money you used to start this business?( )

(Please circle one)

- |                           |                            |
|---------------------------|----------------------------|
| 1. Personal Savings       | 2. Gifts or Inheritance    |
| 3. Loans from Family      | 4) Middleman/ trade credit |
| 5. Moneylender            | 6)Financial Institution    |
| 7. Bank                   | 8)NGO                      |
| 9. Other_(Please specify) |                            |

16) Were there any other major sources of money (other than what you just mentioned) which you used to start the business? ( )

- |  |                            |
|--|----------------------------|
| 1. Personal Savings                    | 2. Gifts or Inheritance    |
| 3. Loans from Family                   | 4) Middleman/ trade credit |
| 5. Moneylender                         | 6)Financial Institution    |
| 7. Bank                                | 8)NGO                      |
| 9. Other_(Please specify) 10) NO, NONE |                            |

17) (If startup loan of any kind)What was the amount of the principal loan?( )

(No Loan = 0)

18) In what currency was this loan? ( )

1)dollars2)shekels 3) Jordanian dinar 4) Other 5) No Loan

19) (If startup loan of any kind), what were the terms of the loan used as the principal source for starting the business? (Please circle one) ( )

1. Paid specific interest over a fixed term and repaid capital at a fixed date
2. Paid a commission on money borrowed
3. Repaid with profits from business
4. Gave reduced prices on goods produced and/or bought inputs from the

5. source of funds
    - i. Acquired raw materials on account
    - ii. Some combination
- (Please specify)

**20)** (if applicable) What was the repayment period for this loan? ( )  
(Please circle one)

1) less than 3 months, 2) from 3 to 6 months, 3) from 6 to 12 months, 4) from 1 year to two years, 5) more than two years to three years, 6) over three years

**21)** In reference to loan, what kind of collateral was required in order to (receive the loan)?  
(Please circle one) ( )

1. No collateral
2. title to property
3. Savings or deposit account
4. Guarantee of repayment by relative or other
5. jewelry, vehicle or other valuable asset
6. other \_\_\_\_\_ (Please specify)

**22)** Have you received any other loans since the business started? ( )

1. Loans from Family
- 2) Middleman/ trade credit
3. Moneylender
- 4) Financial Institution
5. Bank
- 6) NGO
7. Other\_ (Please specify)
- 8) NO, NONE

**23)** If yes, how many loans? \_\_\_\_\_ ( )  
(if none =0)

**24)** What was the amount of( the largest of these) loan(s)? \_\_\_\_\_ ( )  
(in dollars) (0= no loans)

**25)** In what currency was this loan? ( )  
1) dollars 2) shekels 3) Jordanian dinar 4) Other 5) No loan

**26)** What were the terms of the largest of these other loans? ( )  
(Please circle one)

1. Paid interest over a fixed term and repaid capital at a fixed date
2. Paid a commission on the loan
3. Repaid with profits from business
4. Gave reduced prices on goods produced and/or bought inputs from
5. the source of funds
  - i. Acquired raw materials on account
  - ii. Some combination \_\_\_\_\_ (Please specify)

**27)** (if applicable) What was the repayment period for this loan? ( )  
(Please circle one)

1) less than 3 months, 2) from 3 to 6 months, 3) from 6 to 12 months, 4) from 1 year to two years, 5) more than two years to three years, 6) over three years

**28 )** Was collateral required? (Please circle one) ( )

1. No collateral
2. title to property
3. Savings account



4. guarantee of repayment by relative or other  
5. jewelry, vehicle or other valuable assets 6. other \_\_\_\_\_  
(Please specify)

29) (if had any loans) Were you ever unable to make your loan payments on ( )  
time with any of these loans? ? (Please circle one)

- 1) No (always paid on time) 2) Yes

30) Have you any mature and unpaid loans? ( )  
1) No, 2) Yes

31) (If yes to 29 and/or 30) Why did you repay late (or not at all)? ( )  
1) illness, family problems, 2) business failure 3) civil unrest  
4) other 5) did not pay late or default

32) When has the volume of your annual total sales been the greatest? ( )  
1) before 1985, 2) 1986-1990, 3) 1991-1995, 4) 1996, 5) 1997, 6) 1998 to present 7) don't know

33) In what year did you employ the most workers? \_\_\_\_\_ ( )  
1) before 1985, 2) 1986-1990, 3) 1991-1995, 4) 1996, 5) 1997, 6) 1998 to present

34) In your business, do you use a telephone or a fax? (Please circle one) ( )  
1. No 2. Yes, a telephone 3. Yes, a telephone and fax

35) How are goods or services produced in your business? ( )  
1. Primarily Manual 2. Semi automatic  
3. Primarily electric powered production

36) Do you keep written business accounts? Please circle one ( )  
1) No 2) yes

37) Estimate of average sales per month (dollars) \_\_\_\_\_ ( )

38) Estimate of average profit margin per month (in percentage) \_\_\_\_\_ ( )

39) What are the average monthly costs in a business like yours including such things as raw materials, salaries, rent, utilities, taxes, interest cost? \_\_\_\_\_ ( )

40) (Enumerator: after questionnaire) subtract 39 from 37 : Apparent Profit Margin \_\_\_\_\_  
(0 = no profit) ( )

41) ( Enumerator: after questionnaire if negative balance): Apparent Loss Margin  
(0 = no loss) ( )

## II: Formalities observed and Business Linkages

Have you ever filled out any of the following official paperwork? (Please circle one)

42) Registration of vehicles 1. No 2. Yes ( )

43) Registration forms for enterprise 1. No 2. Yes ( )

44) Tax Forms 1. No 2. Yes ( )

45) Where do you purchase the inputs for your enterprise? ( )

1. Local suppliers in neighborhood 2. From suppliers in my town
  3. From my Region (either Gaza or West Bank)
  4. from Israel 5. From Arab Nations
  6. Primarily International market, 7) Other\_\_\_\_\_
- (Please specify)

46) Do you finance your purchases by cash payments or credit from supplier?( )  
1) cash 2) supplier credit 3) both 4) piecework

47) To whom do you sell most of your products? (Please circle one) ( )

1. Individuals
- 2 a company employing less than 10 people
3. a larger company

48) Where do you sell the products of your business? (Please circle one) ( )

1. Local buyers in neighborhood 2. To buyers in my town
3. My Region (either Gaza or West Bank)
4. Israel 5. Arab Nations
6. Primarily International market, 7) Other\_\_\_\_\_

### III: Constraints encountered in business/ Need for Credit

The list below gives a number of factors which could be constraints to a business in Palestine. Please tell us in what degree these factors affect your enterprise regularly in the 1990's?.

Interviewer: READ ALL of the factors mentioned to the respondent CIRCLE the number which the respondent thinks is most appropriate: 1= Very important 2= somewhat Important 3= Not important 4= Does not know

49). Lack of workers	1	2	3	4 ( )
50) Access to Credit	1	2	3	4 ( )
51) Availability or cost of land	1	2	3	4 ( )
52) Access to/ cost of raw materials or other inputs	1	2	3	4 ( )
53) Availability or cost of electricity	1	2	3	4 ( )
54) Too high interest rates	1	2	3	4 ( )
55) Ceiling on credit	1	2	3	4 ( )
56) Too much paperwork for credit	1	2	3	4 ( )
57) Too high collateral required to obtain credit	1	2	3	4 ( )
58) Too high taxes	1	2	3	4 ( )
59) Access to or cost of Transport	1	2	3	4 ( )
60) Cost or availability of new technology	1	2	3	4 ( )
61) Political instability	1	2	3	4 ( )
62) Lack of information on the competition	1	2	3	4 ( )
63) Closures by Israelis	1	2	3	4 ( )
64) Lack of market or fluctuations in market for product	1	2	3	4 ( )
65) lack of rain	1	2	3	4 ( )
66) inability to travel freely between Gaza, West Bank and Jerusalem	1	2	3	4 ( )
67) Import/Export Problems	1	2	3	4 ( )

68) Do you believe that credit is available to you from a bank, financial institution or NGO in THE West Bank or Gaza? Please circle ( )

1) No 2) Yes 3) Don't know

69) (If No) What is the most important reason why such credit is not already available to you from formal institutions like banks or NGOs? (Please circle) ( )

1. banks don't lend to small businesses like mine
2. poor credit history 3. No collateral
4. low profit margin and/or business stability considered too risky
5. type of business is not considered credit worthy
6. simply too little credit available
7. credit not available to women
8. Other \_\_\_\_\_ (Please specify)
9. I don't know

70) Would you borrow from a bank or an NGO or another credit institution if a loan was available to you? Please circle one ( )

1) Yes - from any, 2) Yes from bank or NGO, 3) yes- from bank or other credit institution, 4) yes from credit institution or NGO, 5) No from any

71) (If No) What is the principal reason that you would not take a loan? ( )

- 1) do not need, 2) religious reasons, 3) don't like to be in debt, 4) interest rates are too high, 5) because paper work is too complicated, 6) terms of loans are unfavorable, 7) amounts of loans available too small, 8) Collaterals too high, 9) Too risky/ don't trust banks 10. OTHER

72) (If yes) How much would you like to borrow? (in dollars) \_\_\_\_\_ ( )

73) What would be the primary purpose of the loan? (Please circle) ( )

1. increase or vary stock,
2. buy new business equipment or transport
3. invest in new or improved production technology
4. invest in improved shop facilities
5. hire new worker(s)
6. retrain self and/or workers
7. service existing debt
8. general working capital
9. family/consumption
10. Other \_\_\_\_\_ (please specify)
11. Doesn't want loan

74) If wants to do more than one thing with a loan, what is the second most important use for the money? (Please circle) ( )

1. increase or vary stock,
2. buy new business equipment or transport
3. invest in new or improved production technology
4. invest in improved shop facilities
5. hire new worker(s)
6. retrain self and/or workers
7. service existing debt

8. general working capital
9. family/consumption
10. other \_\_\_\_\_(please specify)
11. doesn't want loan

75) How long do you want the loan for? *Please circle* ( )

1) less than 3 months, 2) from 3 to 6 months, 3) from 6 to 12 months, 4) from 1 year to two years, 5) more than two years to three years, 6) over three years

76) What rate of interest are you willing to pay for the loan? \_\_\_\_\_ ( )  
(In dollars)

If the interest rate went up would you still want the loan?

- 77) by 2% 1) no 2) Yes ( )
- 78) by 4 % 1) no 2) Yes ( )
- 79) by 6% 1) no 2) Yes ( )
- 80) by 8% 1) no 2) Yes ( )
- 81) by 10% 1) no 2) Yes ( )
- 82) by 12% 1) no 2) Yes ( )
- 83) by more than 12% 1)No 2)yes ( )

#### IV. Characteristics of Respondent

84) Please tell us your age \_\_\_\_\_ years ( )  
(Please ask actual or approximate number of years)

85) Gender of respondent (*Please circle one*) 1. Male 2. Female ( )

86) What is the highest level of school that you have completed? ( )

1. No formal school 2. Primary School 3. Secondary School or high school/ technical school
4. University 5. Other \_\_\_\_\_ (Please specify) ( )

87) What did you do before you started this business? (*Please circle one*) ( )  
1. Ran another business 2. Worked in another business 3. Was unemployed  
4. Too young to work before I started this business. 5. Other \_\_\_\_\_  
(Please specify)

88) For how many years have you been engaged in this type of business, ( )  
including this one? \_\_\_\_\_ years (*Please ask actual or approximate number of years*)

89) Do you own (or partially own) any other enterprise? ( )  
(as an investor, manager or worker)? (*Please circle one*)  
1. No 2. Yes one other 3. Yes, two others 4. Yes, more than two

90) Are you a salaried employee of another enterprise (which you do not own)?  
1. No, 2) Yes

91) (If yes to 90) Do you earn more income from your salary than your enterprise? ( )  
1) No, earns more from enterprise, 2) yes, earns more from salary 3) is not employed outside his/her enterprise

92) How much do you contribute to Family Income? (*Please circle one*) ( )

1. I provide all household income
2. I provide more than 1/2 of all household income
3. I provide about half of all household income
1. I provide less than 1/2 of all household income

93) Do you have any bank accounts? ( )  
1) No 2) Yes

Do you have the resources to provide collateral or a guarantee for a loan from a formal institution? *Please circle*

94) A person who could guarantee that you would repay (family member or other)  
1) no 2) Yes ( )

95) Do you own land? 1) no 2) Yes ( )

96) Do you own a house or commercial building? 1) no 2) Yes ( )

97) Do you have stocks? 1) no 2) Yes ( )

98) Do you have bank deposits (savings)? 1) no 2) Yes ( )

99) Do you own jewelry, vehicles or other valuable assets?  
1) no 2) Yes 3) No Answer ( )

**THANK YOU FOR YOUR ASSISTANCE**

**Enumerator's Notes:**

## ANNEX VI

### Comments and Notes: Microcredit field survey

#### *Introduction*

Massar Associates was subcontracted by Weidemann Associates of Arlington, Virginia, to administer and supervise a survey on microlending needs and potential need in the West Bank and Gaza Strip. The Weidemann Associates consultant developed a questionnaire, which was reviewed and adjusted to suit the specifics of the West Bank and Gaza Strip environment. To ensure that the questionnaire was relevant and valid, Massar consultants and field enumerators tested the final draft of the questionnaire and made final refinements ready for implementation. Based on the sample size and design developed by Weidemann Associates consultant, the team developed the sample distribution, but actual distribution is shown below, which insignificantly deviates from the planned distribution. The Survey Director along with four Survey Supervisors closely monitored implementation to ensure maximum reliability and minimum sampling errors. A total of 673 (23 more than what was originally planned) questionnaires were completed in the West Bank and Gaza Strip by 13 enumerators.

This report provides a summary of methodology used, major problems encountered, and observations from the field.

#### *Methodology*

- The sample size was determined by the consultant (650) and considered statistically significant. The consultant ensured that the sample size of each surveyed stratum should exceed 30 to ensure normal distribution.
- The sample distribution was 400 in the West Bank and 250 in Gaza Strip, reflecting the population ratio in the two locations.
- The sample distribution among cities, villages, and camps also considered the population ratio in each area, but also focused on cities as the overwhelming majority of businesses are in urban areas.
- The sample distribution among various sectors (manufacturing, trade, services and agriculture) was based on the population census published by the Palestinian Central Bureau of Statistics (PCBS).
- To make sure that businesses run by women are included, 20 percent of the sample size was women-owned businesses.
- Seven enumerators in the West Bank and six others in Gaza were recruited and trained on the content of the questionnaire as well as methodology and problem solving.
- The general criteria of the selection of the sample unit was to interview the owner of a small business who employs fewer than 10 employees, with no more than \$20,000 investment in assets excluding land.
- The areas surveyed, as shown below, constitutes more than 90 percent of the population.
- Each area was divided into geographical blocks such as industrial zones, commercial centers, north, south, east and west. In each block, the enumerator was asked to count four and select the fifth business. In case of rejection or if the business was not applicable, the field surveyor was instructed to select the next one, and so on until he or

she found the target. This process was monitored to ensure that distribution of selected businesses conformed to the plan.

- The survey supervisor scrutinized completed questionnaires before they were given to the data entry clerks. An insignificant number of questionnaires were rejected because of incomplete responses and/or contradictions of answers.
- An Excel sheet was designed and coded for data entry purposes.
- When the data entry was completed, a random sample (5%) of the questionnaires was selected for scrutinization to ensure the reliability of the data entry.

**Table 1: Sample Distribution in the West Bank/ Actual**

location	Sector					%
	Manufacturing	Trade	Service	Agriculture	Total	
Urban	58	100	75	3	236	57
Rural	14	26	18	80	138	34
Camp	10	16	11	1	38	9
Total	82	142	104	84	412	100
%	20%	35%	25%	20%	100%	

**Table 2: Sample Distribution in Gaza/ Actual**

Location	Sector					%
	Manufacturing	Trade	Service	Agriculture	Total	
Urban	38	48	38	19	143	55
Rural	6	12	5	22	45	17
Camp	17	29	13	14	73	28
Total	61	89	56	55	261	100
Percentage	23%	34%	21%	21%	100%	

**Table 3: Sample Distribution by Sector and Location in the West Bank and Gaza Strip**

Location	Manufacturing	Trade	Service	Agriculture	Total
nin	10	27	16	19	72
Tulkarim	11	14	8	8	41
Nablus	22	31	29	13	95
Ramallah	15	26	17	12	70
Jericho	0	0	0	10	10
Bethlehem	7	15	10	2	34
Hebron	17	29	24	20	90
Total	82	142	104	84	412
North Gaza	16	34	18	27	95
Gaza	27	34	36	12	109
Khan Younis	18	21	2	16	57
Total	61	89	56	55	261
Grand Total	143	231	160	139	673

## *Limitations*

Field enumerators encountered several problems during the course of administering the questionnaires. These are summarized below:

- The response rate was more than 95 percent overall. About 15 absolute rejection cases were recorded in Nablus, four in Jenin, nine in Hebron and five among women-owned businesses.
- The majority of respondents in these areas were skeptical that the surveyors were from the Tax Department. To overcome this constraint, surveyors were instructed to go to the next adjacent business in case of rejection.
- Most of the interviewees avoided answering questions related to income and profit, and the small portion that provided answers were unrealistic.
- All questions related to the Tax and Licensing were found to be very sensitive for businesses, thus, answers were not objective.
- It was difficult to find women-owned businesses, especially in the rural areas and in Hebron area in particular.
- The general feeling among respondents was that such studies are not of benefit to them. The reason behind such belief is that there have been many surveys without tangible benefits.
- Most respondents felt that the questionnaire was very time consuming.
- Most people were hesitant to answer some personal questions related to ownership of land and jewelry.
- It was a burdensome to locate agricultural businesses in Gaza.

## **General Comments**

- It was felt that there is a fair knowledge among respondents about loans and lending procedures in general.
- Many interviewees in Gaza wanted to obtain loans in for personal purposes.
- Many interviewees who had access to loans feel that these loans did not help them to overcome their problems.
- The overwhelming majority of respondents expressed their concerns about the prevailing high interest rates and burden collateral.
- Many people were concerned in obtaining loans for start-up businesses.
- It was noticed that most of the agricultural businesses were more interested to take loans than other businesses.
- Most respondents in the West Bank and Gaza Strip were not aware of their actual costs, expenses, and profit margins.
- Most businesses that obtained loans had received them from non-profit organizations.
- Most women-owned businesses interviewed are in charge of the business either because the woman is a widow or her husband is not able to work.
- Most women-owned businesses are in the traditional businesses such as sewing, knitting, and hair cutting.
- The majority of businesses do not keep records for sales, costs, and expenses.



- Rejections to loans due to religious reasons in the West Bank were relatively more than from those in Gaza.
- The answers to questions like “Who covers the family expenditures?” were unrealistic when compared to the declared income.